THE LATIN AMERICAN COMMON MARKET

UNITED NATIONS

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(Prepared by the Secretariat
of the Economic Commission for Latin America)

UNITED NATIONS

Department of Economic and Social Affairs

1959

E/CN.12/531

UNITED NATIONS PUBLICATION

Sales No.: 59. II.G. 4

Price: $U.S. 1.25; 9/- stg.; Sw.fr. 5.00
(or equivalent in other currencies)

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INTRODUCTION

I

Some time ago the secretariat of the Economic Commission for Latin America, acting on the recommendations of the Governments members of the Commission, began the necessary preparatory work for the formulation of the Latin American common market project. As early as the first session of the Trade Committee, which duly adopted the requisite resolution with this objective in mind, various formulae devised by the secretariat with the help of eminent specialists were examined and discussed. A Working Group on the Latin American Regional Market was thereupon set up, which began its work early in 1958 and held its second session in February 1959, almost immediately before the sessions of the Trade Committee and the Commission at Panama City in May 1959. The bases and recommendations formulated by the Working Group, the thorough discussion of them both in specialized circles and at the more public level, and the consultative meetings on trade policy convened by the secretariat and attended by experts from the southern-zone countries of South America as well as from Colombia, Ecuador and Venezuela, have been creating an awareness of the problem in Latin America and preparing the way for general acceptance of the idea that a common market is necessary.

These steps have not been inspired by academic lucubrations or by the wishful thinking of economists in search of solutions for Latin America's economic problems. They are a fitting solution to the problems involved, and, both as a formula and as an instrument for action, the common market project has become an essential factor in aiding the Latin American economy to escape from the stagnation into which it has been forced by circumstances.

Unfortunately, the illusion that might have been cherished in the decade immediately following the Second World War, to the effect that the development of Latin American economy was gaining great momentum, has been completely dispelled. The high rate of increase of the *per capita* product registered in those years—2.7 per cent—has in fact considerably slackened, and the exceptional factors which determined it have disappeared. In this context, the most important event is unquestionably the fall in prices of primary commodities. Suffice it to point out that in 1958 alone the value of Latin America's exports dropped by 700 million dollars in relation to the preceding year, mainly in consequence of this price decline. In these circumstances, and in face of the increasingly complex forms assumed by the development of Latin America, the policy of international co-operation is clearly beginning to take on a new form. Latin America's long-standing ambition to have a development institution of its own has just been fulfilled. The capital of the Export-Import Bank has had to be increased; the same is true of that of the International Bank for Reconstruction and Development; and the International Monetary Fund too has witnessed an expansion of its resources. All these are favourable symptoms, but it would be a serious mistake to suppose that a greater inflow of international capital would alone suffice to deal with Latin America's basic problems. They can be solved only if the following fundamental fact is recognized: Latin America, however great the external assistance it receives, however high the rate at which its exports expand—and they cannot do so very rapidly—will be unable to carry out its development plans, will be unable even to regain the rate of growth it achieved in the ten post-war years, unless it makes a sustained effort to establish within its own territory the capital goods industries of which it is in such urgent need today, and which it will require on a large scale during the next quarter of a century. Production of machinery and equipment in Latin America, estimated at 1958 prices, amounts to barely 240 million dollars. According to ECLA calculations, by 1975, given favourable hypotheses as to external resources, the level of production of these industries in Latin America will have to be raised to about 6,500 million dollars. This is the conclusion reached in a study entitled "The influence of the common market on Latin American economic development" which sheds a very clear light on prospects for the Latin American common market.

In order to produce these capital goods and develop all the intermediate goods industries required in order to launch these highly complex dynamic industries—beginning with that of iron and steel, consumption of which is now 6.6 million tons and should reach about 38 million by 1975—Latin America needs a common market.

True, the task of creating the common market is not, and never will be, an easy one. Although there is a solid body of opinion in favour of the common market, unanimity is far from being reached as regards the form that it should take. This is by no means surprising. An undertaking of such scope requires some time to take shape; much patient explanation and public advocacy will be necessary before it can materialize, although this work may yield results earlier than we might expect.

A doubt has been expressed as to whether the common market, as projected by the Working Group in Mexico, could combine the features of a free-trade area, and thereby fulfil the conditions laid down by GATT for its formation. The Working Group did not study the juridical aspects of the common market in any detail, since the session had been convened for a different purpose; but the group of consultants who met shortly afterwards at Santiago (Chile) were able to do so, and worked out a smooth and effective formula. Although devised for the southern-zone countries, this formula provides the juridical key to a common market project designed to serve the whole of Latin America, and thus supplements the recommendations formulated at the Mexico session. In ten years' time, Latin America will probably be ready to exempt an essential part of its trade from customs duties, as stipulated in the above-mentioned GATT regulations. In the opinion of the experts at the Mexico meeting, this free-trade area should be gradually converted into a customs union.

The common market project is unquestionably beset by many difficulties and the obstacles to its accomplishment are even greater. But the secretariat considers that the present document reveals beyond any shadow of doubt the interest that exists in the discovery of specific ways and means of translating the project into fact. While some of its chapters are still theoretical in content, something else may be perceived which is of overwhelming importance for the establishment of the common market: this is the reflection of the views and attitudes of Governments, which are expounded in many other sections. The phase of pure research has already been left behind—although numerous studies are still required—and the new phase of governmental measures is being embarked upon. Hence, with the conviction that it is helping to clarify the problems inherent in a Latin American common market, the secretariat deems it urgent that this document, which brings these problems up to date and presents them just as they are at the present time, awaiting solutions which are already taking shape and decisions which are beginning to be adopted, should be published as soon as possible.

II

This volume has been divided into five main sections which, being closely inter-related, impart a certain amount of unity although each of the component documents is self-contained. In section A, entitled "The Latin American common market and the multilateral payments system", Part One contains the study prepared by the secretariat on that subject, while Part Two gives the complete texts of the reports of the first and second sessions of the Working Group on the Latin American Regional Market held at Santiago, Chile (February 1958) and Mexico City (February 1959) respectively. Section B includes the whole of the secretariat study on "The influence of the common market on Latin American economic development", which contains projections of Latin American production up to 1975 on the basis of the prospects offered by the establishment of the common market. Section C, which bears the general title "The free-trade area", deals with the consultative meetings on trade policy, convened by the secretariat at Santiago, Chile, in April 1959, which were attended by experts from Argentina, Brazil, Chile and Uruguay. The main result of the meetings, at which urgent matters of trade policy in the southern-zone countries of South America were discussed, was the formulation of a draft agreement for a free-trade area, the text of which is given in one of the annexes of Section C. In Section D the entire report of the Trade Committee's second session, which was held at Panama City from 11 to 19 May 1959, is reproduced. Lastly, Section E entitled "The United Nations Secretariat and the common market", which contains the speech made by the Secretary-General at the opening meeting of the Commission's eighth session, and the statement by the Executive Secretary of ECLA to the Committee of the Twenty-one which met at Buenos Aires at the end of April.

Among the material compiled in this volume, which is all highly topical—as may be inferred from the dates quoted—the reader will find the necessary bibliographical references which are given throughout the text and usually also at the beginning of each section. The various documents were deliberately selected with a view to keeping as closely as possible to the specific subject of the Latin American common market, and although the payments problem is naturally touched upon in several sections, everything that refers to the particular work of the Central Banks Working Group has been left for inclusion in a subsequent publication. However, the subject is alluded to in the texts that make up this volume and may be studied by the reader in the provisional mimeographed documents that have been issued. Moreover, some of the basic documents, such as the Protocol adopted at Rio de Janeiro in November 1958 by the Central Banks Working Group, are included among the annexes in one of the sections of this volume.

A

THE LATIN AMERICAN COMMON MARKET AND THE MULTILATERAL PAYMENTS SYSTEM

E/CN.12/C.1/9
28 March 1959

Part One

REPORT BY THE SECRETARIAT

I. Significance of the common market for the economic development of Latin America

1. Dynamic concept of the common market

The object of the following pages is to approach the question of the common market from the standpoint of the economic development of Latin America. The urgency of the need for progressive forms of economic integration began to claim attention from the time of the secretariat's very earliest studies,[1] subsequently reasserting itself[2] until it was given definite expression in the recommendations on the structure of the common market and the bases for its operation which were prepared by the Working Group on the Latin American Regional Market, in close co-operation with the secretariat.[3]

The Working Group has made every effort to devise realistic proposals. The common market must emerge from a policy rather than a formula. It is, of course, possible to visualize a comprehensive and far-reaching formula according to which goods and services, human beings and capital circulate freely, without hindrances of any kind, in one huge Latin American common market. This final objective must be constantly borne in mind, even though it can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets; and would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose.

Such a policy must inevitably go through an experimental phase. This is the keynote of the recommendations formulated. There would be a preliminary ten-year period by the end of which the average level of inter-Latin American customs duties would have to be substantially lowered. And the decision as to how this policy might best be pursued in a future second stage would be left for later negotiation.

The reductions whereby duties would be brought down to the desired average level would not be uniform, but would be differentially established for specific groups of countries and categories of goods, not so much for the mere purpose of classification, as in obedience to the fundamental concept that allowance should be made for the varying stages of economic development reached by the Latin American countries, and for the practical difficulties attendant upon application of the reductions.

The common market should offer each and all of the Latin American countries equal opportunities of expediting their economic growth. But the disparities in their relative situations consequent upon the varying stages of development referred to necessitate differential treatment if such equality of opportunity in respect of the common market is to be ensured so far as possible.

However great the pains taken to devise suitable formulae, only when these are put into practice can their true efficacy be assessed. Hence, too, the desirability of adopting highly flexible procedures and establishing far-sighted escape clauses during this experimental phase. Once the first ten years are over, the lessons of experience will enable a truer course to be steered towards the final goal.

All this is a matter of understandable caution. The idea of the common market has been gaining a great deal of ground in Latin America. But it is easy to see why concern still exists as to the safeguarding of existing production—whether primary or industrial—against competition that might bring in its train serious distortions which are not inherent in the common market. The market is based upon an essentially dynamic concept, and looks towards the future—not just the immediate future, but also that of a Latin America whose 193 million inhabitants will have grown to nearly 300 million by 1975, and will probably exceed 450 million by the turn of the century.

For countries handicapped by a shortage of capital and with a growth capacity that has proved to be insufficient as yet for the efficient absorption of large volumes of manpower, a great deal of whose effort is wasted in rudimentary forms of production, no solution entailing persistent unemployment of the factors of production would be acceptable. Similar considerations underlie the anxiety frequently felt as to the possible consequences of too abrupt a discontinuance of protectionism among the Latin American countries. A major proportion of the region's existing activities is carried on under the aegis of the present protectionist policy. But a common market on the lines conceived

[1] See *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), United Nations publication, Sales No.: 1951.II.G.1.

[2] See the report "Payments and the regional market in inter-Latin American trade. Analysis and recommendations" (E/CN.12/C.1/4), prepared by the consultants Mr. Eusebio Campos and Mr. José Garrido Torres, in collaboration with the secretariat. (This document was afterwards incorporated in *Inter-Latin American trade: current problems* (E/CN.12/423), United Nations Publication, Sales No.: 1957.II.G.5, pp. 93 *et seq.*)

[3] The text of the reports of the first and second sessions of the Group is given in Part Two, pp. 28 *et seq.*

would not affect these activities so much as the industries which will henceforth have to be developed in response to the demands of economic growth.

The magnitude of these demands will be considerable. To take only a relatively short period into account, if Latin America re-establishes and up to 1975 steadily maintains the annual rate of growth of the average *per capita* product registered during 1945-55, which was then 2.7 per cent, but since that period has declined, demand for industrial products will be quadrupled. About 90 per cent of this industrial demand will have to be satisfied with the region's own production, and only the remaining 10 per cent with imports.

Such an expansion of industrial production will afford ample opportunity for specialization and reciprocal trade, particularly in connexion with the new industries that are bound to be promoted in the field of capital goods, motor vehicles and other durable consumer goods, as well as in that of intermediate products. As progress is made in this direction, increasingly complex activities, in which the size of the market is a supremely important factor of productivity, will in fact have to be undertaken. Thus, the continued development of production in twenty watertight compartments, as under the present system, will steadily widen the gap between the yield of the new capital investment necessitated by the march of industrialization, and the results obtained in the great industrial centres with broader markets at their disposal.

The more complex industries in question have not yet been established, or are still in the early stages of development, and it is in their case that the reduction or abolition of customs duties implied by the common market can be effected with relative ease. With respect to existing industries, on the contrary, great care will have to be taken to prevent the distortions referred to above. But even there the growth of demand may gradually create conditions favourable to specialization and reciprocal trade, as over-all economic development gains enough momentum to enable readjustments to be made in activities which might be adversely affected.

Consequently, the more thriving the development of the region, the more smoothly and efficiently can the common market be brought into being. But the vigorous growth required cannot be achieved without that intensification of inter-Latin American trade which is one of the aims of the common market. Thus there is close interdependence between this latter and the acceleration of economic development.

In reality, the common market is an expression of the effort to create a new pattern for an intra-regional trade capable of meeting two exacting demands, namely, the requirements of industrialization and the need to lessen the external vulnerability of the Latin American countries. So long as these countries' economies were principally directed towards supplying the large industrial centres with primary commodities, they had no major incentives to reciprocal trade. Except as regards some degree of primary complementarity, they were linked by no close economic relations, nor was there any reason why such relations should exist. The trouble is that this same economic régime still persists at the present stage of industrial development. The progressive establishment of the common market would mean that it could undergo a gradual transformaton, with the great ensuing benefits that might be derived from a more rationally organized system of production, under which the potentialities of the land would be more efficiently utilized, and industry, thrusting beyond the narrow bounds of each country's individual market, would acquire more economic dimensions and, by virtue of improved productivity, would be able to increase its already considerable contribution to the standard of living in Latin America.

Moreover, the common market could play a leading part in mitigating the Latin American countries' vulnerability to external contingencies and fluctuations, which, notwithstanding their industrialization, is still acute, precisely because of the arbitrary fragmentation of the latter process.

2. THE COMMON MARKET AND THE ACCELERATION OF DEVELOPMENT

These preliminary concepts must now give way to discussion of the main topic of this section. The contention here is that Latin America's basic economic problem consists in the achievement of a rate of economic growth satisfactory enough for the gap between its income levels and those of the great industrial centres to be progressively narrowed. Attention has just been called to the interdependence of the common market and the acceleration of development. During the post-war years, Latin America's economic growth seemed to gain new momentum ; but the impetus did not last, because its most important generating factors were of an exceptional nature. The cumulative average annual rates of increase of the *per capita* product and of *per capita* income reached 2.7 per cent and 3.3 per cent, respectively, in 1945-1955.[4] Such rates were relatively high for Latin America, but they could not be maintained, and in 1955-1958 the corresponding figures fell to 1.1 and 0.5 per cent, respectively.

The terms of trade played a very important part in determining this movement; their improvement in the earlier period was conducive to the higher rate, and their subsequent deterioration was largely responsible for the latter decline.

So long as they show no unmistakable signs of a recovery—and none is in sight for the moment—the task of re-establishing the former rate of growth of the *per capita* product (2.7 per cent) will be more difficult than in the past; nor will this be due to the above-mentioned factor alone.

What is more, a rate of 2.7 per cent does not fully meet the social demands of development, nor is it comparable with the recent experience of other countries in process of rapid industrialization. Yet to regain and

[4] The difference between the two rates is given by the terms-of-trade effect.

maintain it will mean overcoming considerable obstacles. Among these, there are two of external origin which are highly important and closely inter-related. These are (*a*) the relatively slow growth trend of exports of goods and services and (*b*) the limitations imposed by this very circumstance on the capacity to absorb foreign capital. The question of exports may conveniently be dealt with first, and the problem of foreign capital discussed later.

A rate of increase of 2.7 per cent for the *per capita* product would imply an annual increment of approximately 5.4 per cent in the aggregate product, given the rate of growth of the population of Latin America. Everything suggests that a less intensive upward trend will be shown by primary exports than by the product. On the basis of existing prospects, it would be over-optimistic to estimate that they will expand at an average annual rate of more than 3 per cent, as against 2 per cent in 1945-1955.[6]

A marked disparity is observable between this situation and the probable expansion of demand for imports. While the tendency of exports is to lag behind the growth of the product, that of imports, of course, is to outstrip it. Unquestionably, therefore, Latin America will be compelled to pursue its import substitution policy as intensively as possible in order to achieve the rate of aggregate growth just mentioned.

Consideration must also be given to the possibility that exports might develop more intensively. Would this lessen the need for import substitution? Herein might lie one of the alternative solutions. The other might be to take advantage of this more intensive expansion of exports to raise the rate of increase of the *per capita* product above 2.7 per cent. There would be no reason why this should make any perceptible difference to the conclusions reached or to the magnitudes involved.

3. Excessive decline in the import coefficient

How far would the foregoing suggestion be practicable, given the present pattern of trade? This question springs to mind when the decrease that would necessarily take place in the import coefficient is estimated. If the substitution policy referred to is adequately implemented, imports, which at present constitute 16 per cent of Latin America's aggregate product, will correspond to barely 7.7 per cent by 1975, a figure consistent with the purchasing power deriving from the region's traditional exports.

This coefficient represents an average for Latin America as a whole. For the countries of Western Europe, the corresponding average coefficient is at present 18.5 per cent; a considerable proportion is attributable to their reciprocal trade, which, in fact, accounts for approximately 9 per cent of the aggregate gross income of the countries in question, while trade with the rest of the world is responsible for the other 9.5 per cent that brings the aggregate coefficient up to the figure mentioned (18.5 per cent).

In the case of Latin America, on the other hand, out of the projected average coefficient of 7.7 per cent barely 1.2 per cent would be represented by intra-regional trade, unless radical changes were introduced in trade policy. The contrast between the two situations is patent. In Western Europe, the relatively low income-elasticity of demand for imports of primary commodities and the protectionist policy adopted in respect of agriculture have played a noteworthy part in reducing the coefficient of imports from the rest of the world. But, on the other hand, the development of trade among the countries forming this economic group has fostered the proces of industrial specialization which is sure to be considerably encouraged by the common market.

The United States, by virtue of the same factors that have operated in Western Europe, registers a still lower coefficient with respect to the rest of the world, but its internal trade coefficient is far higher in every way than that of Western Europe, since a true common market exists among the fifty States forming this vast area of economic integration. The same is true of the USSR, whose external coefficient would seem to be barely 2 per cent and which also has at its disposal an extremely broad common market and is developing with great vigour.

At this juncture it is worth while pausing a moment to consider the coefficient for Latin America. The intensity of the downward movement postulated in the projections cited is a measure of the ever greater difficulties that would be encountered by import substitution policy in its inevitable advance towards types of industry which require a broad market if they are to be run on economically sound lines. Some of the consumer industries in those of the Latin American countries which have the largest populations have been successfully built up to an economically satisfactory size, but in many cases the internal market is still too narrow to allow of rational specialization whereby costs can be reduced. And as progress is made in the industries producing capital goods, motor vehicles and certain durable consumer goods, the need to expand the domestic market becomes increasingly evident. If the common market is not organized, however, each individual country will find itself compelled by the imperative necessity for import substitution to carry the development of these industries farther and farther, and will have to do so at exceedingly high costs. This is a point of vital importance, since industrialization is not an end in itself, but an efficient means of increasing average productivity and consequently raising the standard of living of the population. And if the heavy investment required for the industries under discussion yields an average product much smaller than in the industrial centres with broad markets, the beneficial effects of this new phase of industrialization in the more advanced Latin American countries will have been largely thrown away.

The countries in question—Argentina, Brazil, Chile and Mexico—currently account for about 70 per cent

[6] These and other projections mentioned here are formulated in the study "Influence of the common market on Latin American economic development" (E/CN.12/C.1/13), included in part B of the present volume, pp. 53 *et seq.*

of the industrial output of Latin America as a whole, while their share in its population is 65.1 per cent. The other countries are still in the initial stages of industrialization. Will they follow in the footsteps of the former group and try to produce within their own frontiers all the current consumer manufactures they require? Will they also undertake the more complex type of production in which progress is being made by the countries at a more advanced stage of development?

If so, the attendant circumstances will not be the same, but, in general, less advantageous, owing to the smaller population of the countries concerned, their lower income levels and, consequently, the more limited volume of demand. These countries' need for industrialization admits of no discussion, but it is equally unquestionable that an attempt to carry out the process within the confines of each watertight compartment will deprive them—and to a much greater extent than has been the case with the bigger countries—of the opportunities for specialization and low costs which can materialize only within a common market so organized as to provide positive incentives for the industrial expansion of Latin American countries in the initial stages of development.

The gradual establishment of the common market would mean that the decrease in the coefficent of imports from the rest of the world which resulted from the relatively slow growth of primary exports could be offset little by little, at least in part, by an increase in the coefficient of intra-regional imports. It is, of course, impossible to make a reliable estimate of what this coefficient might be by 1975, but it can be approximately computed. If the figure at present is 1.5 per cent, it would be idle to suppose that it could rise to 9.5 per cent, and totally compensate the fall in the coefficient of imports from the rest of the world. The implication of such a development would be that inter-Latin American trade, the figure for which is at present 765 million dollars,[6] would increase more than seventeen times over. If it were to be multiplied eleven times, the coefficient would be 5.9 per cent and the approximate amount of trade 8,300 million dollars. This could perhaps constitute a reasonable common market target, so that the proposed task of regaining and steadily keeping up the aforementioned annual average rate of growth of the *per capita* product—2.7 per cent—might not be rendered extremely difficult, if not impossible, to accomplish.

4. Expansion of exports to the rest of the world

This, however, is not the only possible way of offsetting the decline in the coefficient with the rest of the world. There are two other alternatives, dependent mainly upon the trade policy of the great industrial centres *vis-à-vis* Latin America. These are (*a*) lower tariff protection for primary commodities and (*b*) encouragement of the region's industrial export trade.

As regards the first, very clear recommendations were formulated by the group of experts which the General Agreement on Tariffs and Trade (GATT) convened a short time ago to pronounce upon this and other allied problems.[7] In so far as the Latin American countries are able to expand their primary exports, their industrial imports will also increase. It has already been pointed out in other reports that in all this an element of reciprocity is implicit; and experience demonstrates conclusively that in Latin America an increment in exports is followed very shortly afterwards by an upswing in imports. But these imports will not be of the same nature as before. A concomitant of economic development is the imperative need for their composition to be brought into line with the changes introduced in the internal structure of the economy.

This is a significant consideration from the standpoint of trade policy. The demands of economic development would not permit the customs tariff as between the Latin American countries and the rest of the world to be set in a specific and rigid mould. As progress is made in import substitution, modifications will have to be gradually introduced, because of the need to give protection to new substitution industries, although this will not affect whatever reductions of duties it may be possible to establish in respect of industries already in existence.

The other possible way of checking the downward movement of the import coefficient would be by exporting manufactures from Latin American countries to other parts of the world. It would seem somewhat paradoxical that these countries, which still need customs protection, should be able to compete industrially on the great centres' home ground. But this is exactly what is happening with respect to the countries of Western Europe in the United States market. What is more, there are even some Asian countries which are now developing their exports of textiles to countries in Europe. The development of this type of industrial trade depends upon the following two factors: on the one hand, Latin America's capacity to export, and, on the other, the willingness of the large centres to facilitate the corresponding imports by means of suitable tariff treatment.

As regards the first of these factors, the common market, by helping to lower costs, might boost certain lines of industrial exports. It must be acknowledged that hitherto the domestic market facilities created by import substitution policy have not given rise to any very impressive undertakings in the field of industrial exports to the rest of the world. Moreover, since in many cases protectionist policy, in the shape of very severe import restrictions, if not bans, has been carried too far, the atmosphere of competition in the internal market has become appreciably less intense. The return to the

[6] Average for 1954-1956, in terms of dollars at 1950 prices. In this report monetary values are invariably expressed in dollars at 1950 prices; aggregate production and income figures can be converted into dollars at 1959 prices by raising them about 20 per cent. Figures for foreign trade, on the other hand, and for individual goods, have their own special deflators.

[7] See GATT, *Trends in International Trade. A Report by a Panel of Experts*, Geneva, October 1958.

customs tariff as an instrument of protection, the lowering of intra-regional duties in some cases and their abolition in others would do much to restore the spirit of competition, greatly to the benefit of industrialization policy. In this new environment, the gradual development of a flow of industrial exports to the rest of the world might be one of the objectives of Latin American trade policy.

Clearly, the success of this policy would also depend upon a receptive attitude on the part of other countries, especially to advanced industrial centres. In some of these there are already signs of a trend towards employment of manpower in industries characterized by their high technical quality and relatively rapid growth, at the expense of others which could not stand up to competition on equal terms from similar industries in countries that have comparatively recently entered the field of industry. If the more advanced industrial centres in the rest of the world were to succeed in steadily maintaining a satisfactory rate of economic growth, and the momentum of technical progress continued carrying them on to increasingly complex and elaborate types of industry which would absorb manpower displaced from other activities, hitherto unsuspected prospects might be opened up for Latin America's industrial export trade.

It is thus possible to imagine reciprocally advantageous patterns of industrial trade which would have a significance very different from that of the traditional exchange of raw materials for manufactured products.

Clearly, then, Latin America common market policy, in the form in which it is conceived, far from inhibiting international trade, might actively promote it. It has been repeatedly shown that the tendency of industrialization in the past has been to increase trade among the countries that become industrialized rather than to restrict it, except when the process has developed in watertight compartments, as in the case of Latin America. But such encouragement of international trade is dependent not only upon the common market patterns contemplated here, and upon their favourable influence on production costs, but also upon a receptive attitude on the part of the industrial centres and upon the degree of efficacy with which commercial policy exploits these new trade possibilities as between the two groups.

In other words, trade policy would have to be readjusted in keeping with the new state of affairs. Otherwise, the Latin American common market would not suffice in itself to foster trade with the great industrial centres. If Latin America's exports to these were still to consist mainly of traditional commodities, and these were to remain subject to the same restrictions that exist at present, the volume of imports from the great centres in question would be the same with or without a common market, and only their composition would be altered. But if a readjustment of trade policy were to improve the trend registered by these exports of primary commodities and at the same time open up the new prospects for industrial exports alluded to above, the trade expansion potentialities of the Latin American common market could materialize.

5. Import substitution and industrial growth

Given a specific rate of economic growth in Latin America, the development of such industrial exports would reduce the scale on which import substitution had to be promoted. Latin America would be using its own manufactures to pay for industrial imports which in other circumstances it would have to replace by domestic production in order to attain the rate of development in question. The possibility under discussion would in no way imply a slackening of the rate of industrial growth that would otherwise have to be attained.

This is an important point upon which it is worth while dwelling for a moment. First and foremost, it should be recalled that, from the standpoint of the labour force, industry, like other urban activities, has the dynamic function of absorbing the manpower which technical progress releases from agriculture and other primary activities, from artisan industries and from pre-capitalistic occupations with very low productivity. The more intensive is the technical progress achieved, the higher will have to be the rate of growth of employment in industry, if the effects of improved techniques are not to be frittered away through unemployment, or through under-employment, of such manpower as primary production and the other activities mentioned no longer require.

Consequently, the scale on which industry must fulfil this dynamic role of absorbing manpower is by no means an arbitrary matter, if a given rate of development of primary exports is assumed. Should trade continue to follow its traditional patterns and industrial exports fail to develop, a larger proportion of manpower would have to be employed in import substitution industries than would be the case if exports of this other type were promoted.

The proportions concerned are of decisive importance for the rate of increase of a country's availabilities of industrial goods for consumption and capital formation. The employment of a very high proportion of the labour force in substitution activities—that is, a low import coefficient—implies that a country is setting up all sorts of industries regardless of the advantages of specialization; so that the productivity of its manpower will be lower than might be the case if industry were rationally organized and could depend upon broader markets. For this reason, industrial employment itself may result in a larger or smaller output of goods, according to the degree of industrial specialization achieved.

6. The essential principle of reciprocity in inter-Latin American trade

The development of industrial exports to the rest of the world might be one of the derived consequences of the common market, although not its primary, direct and immediate objective, which is twofold, embracing (*a*) the intensive development of industrial exports from each of the Latin American countries to all the rest, and (*b*) the provision of powerful incentives to traditional trade in primary commodities, so that national import substitution policy may be kept within reasonably economic bounds. If a country aspires to a rate of development more rapid than the slow pace imposed by the expansion of its exports, it has at present no choice but to substitute domestic production for everything that it cannot feasibly import. The common market would offer it another alternative, i.e., that of developing industrial exports to the other countries of the region so as to obtain from them goods which otherwise it would have been compelled to produce at home. Thus, instead of trying to establish all kinds of substitution industries, each country could specialize in those it deemed best suited to its natural resources, the aptitudes of its population and the possibilities of its own market; and it would resort to imports of industrial goods from the rest of the Latin American countries in order to meet other requirements which could not have been satisfied on the basis of purchases from outside the region.

All this raises problems of great importance for the operation of the common market. As has just been pointed out, the market offers an alternative to import substitution policy—that of buying from other Latin American countries industrial products which were formerly imported from the rest of the world, and increasing its exports to pay for them. This last point is of supreme significance. Substitution policy is not arbitrary, although in practice it may be arbitrarily applied; imports are replaced by domestic production for want of sufficient exports to finance them. The advantage of the common market lies in the opportunity that it would afford for sales to other Latin American countries, from which the imports that could no longer be obtained from the rest of the world could then be purchased without difficulty.

If a country were unable to effect such exports to other Latin American republics on a sufficiently large scale, it would not reap the benefit of the alternative offered by the common market; and its situation might prove less favourable than would have been the case had the market not existed. A concrete example may be given as an illustration, to facilitate later discussion of the corrective measures that would have to be applied in order to ensure the satisfactory operation of the common market.

Let it be assumed that a particular country, given a certain trend in its export trade, needs to achieve import substitution to a value of 200 million dollars within a specific period. In default of a common market, the country in question would be compelled to establish all the industries necessary for the attainment of this purpose, whatever their degree of productivity. The common market would offer it an opportunity of diverting some of the import trade concerned towards other Latin American countries, and so limiting the amount it had to replace by domestic production. It may be further assumed that the figure for the import trade thus diverted would reach 150 million dollars, and that domestic production would be substituted for the remaining 50 million dollars' worth. This does not mean that the country in question would develop only the new substitution industries needed to produce those 50 million dollars' worth of goods; it would also have to be in a position to expand existing production, or establish other industries manufacturing exportable products to a value of 150 million dollars. In other words, apart from the growth of its current activities, the country's additional production would amount to 200 million dollars, with the consequent increase in employment of the factors of production. The economy would thus achieve a higher rate of growth than would have been the case had this alternative not existed owing to the greater productivity consequent upon industrial specialization.

What would happen if, instead, the country merely switched its import trade with the rest of the world to other Latin American countries? Simply this: its imports from within the region would total 150 million dollars more, and those from outside it 150 million dollars less, and the new industries established would be confined to those required for achievement of the import substitution figure (50 million dollars) mentioned above. No export industries would have been developed, nor would existing production have been expanded with a view to external sales, and consequently the economy would not have attained the rate of development at which it was aiming.

The reasons why a country might find itself in such a position will not be analysed here. If the result were that factors of production remained idle, import substitution amounting to the whole 200 million dollars would have been preferable to the unilateral diversion of its import trade towards other Latin American countries.

Thus there is an essential element of reciprocity in the common market, the absence of which might place some countries in a difficult situation; this topic will be reverted to later, since at the moment another aspect of the problem claims attention. The common market would permit the diversification not only of exports—inasmuch as exports of manufactured goods would be added to those of primary commodities—but also of imports. All this would help to lessen the external vulnerability of the Latin American countries.

7. EXTERNAL VULNERABILITY

One of the paradoxes of Latin America's economic development is that countries that tried to reduce their vulnerability by means of industrialization have once again found themselves in a highly vulnerable position. This is attributable precisely to the fact that substitution policy has been implemented in sealed compartments. In the most advanced countries of Latin America the substitution process has been carried so far that imports have been cut down to such goods as are essential for the maintenance of economic activity. Thus, when the vicissitudes of the export trade lead to a contraction of the capacity to import, as there are no longer current consumer goods to which restrictions can be applied, these latter must inevitably be imposed on essential items themselves.

Hence the reduction of the import coefficient to very small proportions has involved a new kind of external vulnerability, formerly unknown. In the past, when exports and, therefore, imports accounted for a high proportion of income, there was always a wide reducible margin of imports when unfavourable foreign trade movements made this necessary; but, on the other hand, export fluctuations exerted a considerable influence on internal demand, which has been greatly weakened by the decline of the coefficient in question. In other words, the economy used to be vulnerable mainly on the demand side; now the principal source of its vulnerability is to be found at the other extreme, in the supply of essential imports, the curtailment of which is prejudicial to employment levels.

Comparison of this situation with that of the countries of Western Europe, whose import coefficient is higher, will reveal a very significant contrast. There, too, a change has taken place in the composition of imports, but, apart from their trade with the rest of the world, their intra-regional trade covers a very wide range of consumer goods, as well as essential raw materials and capital goods. The countries concerned have not been compelled to resort to arbitrary selection as have those of Latin America; and while it is true that in certain periods dollar shortages have necessitated severe restrictions, successful efforts have been made to prevent the group's reciprocal trade from being affected, at any rate to an equal extent, and this has enabled the same wide range of imports to be maintained. Thus, a country whose payments situation is persistently critical has a freedom of movement that the more advanced countries of Latin America have lost or are tending to lose.

The establishment of the common market would mean that the trade distortion described could gradually be remedied, and prevented from occurring in countries where it had not taken place. By virtue of progressive specialization, the common market would enable the member countries to supply one another's needs in respect of an increasing proportion of those goods which they had been obliged to refrain from importing, and this would allow them once again to diversify their external purchases from outside the region. No backward step is involved; technical progress and changes in habits and tastes are continually introducing new consumer goods, or new varieties or features in those which already exist, and, as inter-Latin American trade developed, room could gradually be made for these new imports. In addition, the promotion of industrial export to the rest of the world would give an increasing impetus to this salutary process of rediversification of imports.

Furthermore, intra-regional trade in consumer manufactures could be developed within the common market. It is true that stress has been laid here on those goods in respect of which import substitution would have to be promoted in the more advanced countries—raw and intermediate materials, capital goods, motor vehicles and other durable goods—but this would not preclude the additional undertaking of a specialization effort in certain consumer industries which already exist, particularly in cases where the growth of demand facilitated this course. Moreover, it would often be through the development of consumer industries that the industrial exports of countries in the initial stages of development could participate in the common market.

In this way the composition of imports would gradually acquire the element of flexibility which it has been losing little by little as a result of the special form assumed by substitution policy in Latin America. External vulnerability would then be considerably lessened, since a judicious margin for import restriction would have been re-established.

However, so far as their intra-regional trade is concerned, it may be hoped that, if a satisfactory payments and credits system were instituted along with the common market, the Latin American countries would be able to withstand trade fluctuations without having to make use of the margin for restriction in any but extreme cases. This point will be discussed further in the appropriate context.

8. ABSOLUTE NECESSITY FOR THE INTENSIVE DEVELOPMENT OF CAPITAL GOODS INDUSTRIES

There are two closely interrelated factors that hinder the acceleration of Latin America's economic development: the relatively slow growth of exports of goods and services and the limitations of the capacity to absorb foreign capital. The organization of the common market would offer a means of tackling the serious problem created by this state of affairs. As was shown in the preceding section, the existence of the market would mean that import substitution policy, in respect of goods from the rest of the world, could be rationally implemented through suitable forms of inter-Latin American specialization, with a view to countering the effects of the slow development of primary exports. But, in addition, thanks to the common market, it would be possible to combat the serious difficulties deriving from the above-mentioned limitation in the capacity to absorb foreign capital.

In reality, this limitation is one of the effects of which the slow growth of exports is the cause. As the stock of foreign capital increases, the burden of financial services also becomes heavier, and gradually claims an increasing proportion of export earnings; and the larger the share of these services, the narrower will be the margin for utilizing such resources to import capital goods. At the present time, about 15 per cent of the total value of Latin America's exports to the rest of the world is absorbed by services payments, including amortization. Experience would seem to suggest that 30 per cent of exports ought to be the maximum for financial services.

The next step is to estimate the quantity of capital goods that might be imported by 1975 if this maximum were reached, on the basis of reasonable assumptions as to the possible change in the composition of imports by major categories of goods, as indicated by the following data:

Projection of relative composition of imports [a]

(Percentage)

	1955	*1975*
Consumer goods	25.0	58.5
Intermediate goods	40.0	
Capital goods	35.0	41.5
	100	100

a These data refer to imports from outside the region.

The assumption here is that the proportion jointly absorbed by consumer and intermediate goods would contract in order to leave more room for imports of capital goods, which would thus increase from 35 to 42 per cent of the total. This would mean that the figure for imports of machinery and equipment could rise from 2,000 million to 3,700 million dollars. But as the expansion of demand for such goods would be much greater, these lines of production would have to develop in Latin America at a very rapid rate, as can be seen from the following supplementary table:

Projections and satisfaction of demand for machinery and equipment

(Millions of dollars)

	1955	*1975*
Imports	2,000	3,700
Production in Latin America	200	5,400
Demand	2,200	9,100

The region's output of machinery and equipment is at present relatively small. According to approximate estimates, its value amounts to some 200 million dollars for the whole of Latin America, excluding the manufacture of spare parts and repair work, which attain considerable figures. To satisfy the increment in demand, production would have to expand at an annual rate of 18 per cent and reach about 5,400 million dollars by 1975, which would mean its increasing 27 times over, whereas aggregate industrial output would be quadrupled.

If these projections were fulfilled, production of such capital goods in Latin America, which at present satisfies about 10 per cent of demand, would cover some 60 per cent by 1975.

These estimates are not, of course, forecasts, but are formulated merely for illustrative purposes, and give an approximate idea of the magnitude of the production effort required in the field of machinery and equipment, on the hypothesis that up to 1975 the region's capacity for absorption of foreign capital will be utilized to the maximum.

In any event, even if the assumption adopted is the most moderate as regards absorption of foreign capital and the most optimistic as to the possibilities of importing machinery and equipment, it is obvious that the substantial development of Latin America's production of these goods is an indispensable prerequisite for the attainment of an economic growth target such as is postulated in this report.

Machinery and equipment industries, therefore, will have to be given high priority as regards foreign capital investment, so that the region's own resources may suffice for the maintenance of a high rate of capital formation. Thus, the supremely important role incumbent upon foreign capital during the next few years will be that of helping to create such conditions as will permit the intensive growth of the Latin American economy on the basis of its own resources.

From another point of view, the fact that the structural changes which must be introduced into industrial production open up a promising field for foreign investment does not imply that Latin American enterprise and capital will cease to be keenly interested in the promotion of such industries. On the contrary, one of the essential points in common market policy ought to be the provision of both technical and financial assistance whereby the Latin American entrepreneur may be encouraged to forge resolutely ahead in these new lines of production. In this and other connexions a statement made some years ago in a report presented to the Rio de Janeiro conference is still of topical interest.[8] It was said at that time that the situation of Latin American entrepreneurs " is unquestionably inferior to that of their foreign counterparts, and any effort to decrease this difference will have marked effects upon economic development, and the functioning of the free enterprise system ".[9]

9. SPECIAL SITUATION OF AGRICULTURE

Attention has already been called to the dynamic role incumbent upon industry from the standpoint of the distribution of manpower: that of absorbing the manpower which the progressive introduction of improved techniques releases from primary production, as well as from artisan industry and other pre-capitalistic activities where productivity is unsatisfactory.

If industrial production were to be quadrupled by 1975, in accordance with the projection postulating an annual increment of 2.7 per cent in *per capita* income, the proportion of the active population employed in agriculture, which is at present about 50 per cent, would fall to approximately 36 per cent. (This figure relates to Latin America as a whole. There are countries in which the corresponding proportion is and will continue to be very high.)

This leads to the consideration of another very important aspect of the question. The agricultural

[8] Meeting of Ministers of Finance or Economy, as the IVth Extraordinary Meeting of the Inter-American Economic and Social Council of the Organization of American States, held in November 1954. See *International co-operation in a Latin American development policy* (E/CN.12/359), United Nations publication, Sales No.: 1954.II.G.2.

[9] *Ibid.*, p. 31.

population falls into two broad categories: (*a*) those working in agriculture for export; and (*b*) those engaged in supplying the needs of the domestic market. In agriculture for domestic consumption, out-of-date methods of farming and a very low level of productivity usually prevail, while in addition the soil is often impoverished by long periods of unremitting cultivation during which nothing is done to review its productive potential. These are some, though not all, of the reasons why in certain cases protectionist measures have to be adopted to enable agriculture for domestic consumption to withstand foreign competition.

The sudden impact of such competition as a result of the creation of the common market would unquestionably have a far-reaching effect upon these protected activities. Where would the manpower displaced from them turn for employment? What would be done with the land that would thus be left unused?

The above-mentioned estimate of the percentage decrease in the manpower employed in agriculture is based on existing activities and on the assumption that production will continue to expand by virtue of the progressive introduction of improved techniques. The development of industry would have to be on a still larger scale than in the projections formulated, with the consequent increase in the rate of growth of the *per capita* product, if manufacturing activities had also to absorb a substantial volume of manpower displaced from agriculture by external competition.

Industrial development on such a scale, however, would imply a very considerable effort, and it would be unwise to base common market policy on the assumption that higher rates of growth will be achieved, although the existence of such a possibility should be recognized. Hence a special criterion must be adopted in tackling the problem of agricultural production, as in the case of the Western European common market and the Scandinavian project. It would be ill-advised to contemplate the reduction or abolition of existing customs protection, without a readjustment of production in accordance with a carefully devised programme for agricultural development and the improvement of farm techniques. This does not imply that the common market would not influence the situation as it stands at all. Certainly it might. In fact, it would open up a possibility which is almost non-existent at present—that of importing an agricultural commodity at a cost lower than that of the domestically produced item, in exchange for exports either of other primary commodities or of industrial products. In other words, the common market would afford an opportunity, in the first place, of gradually readjusting current production with a view to more efficient land use in combination with imports; and, secondly, of at least controlling the advance of customs protection in the face of competition from other Latin American countries, when the problem of internal supplies could be more satisfactorily solved by means of intra-regional trade.

The caution alluded to earlier is not in reality incompatible with the extensive development of inter-Latin American trade in agricultural commodities. Such trade at present amounts to about 400 million dollars, of which 300 million are accounted for by eleven specific items. In the projections presented in the report mentioned above,[10] it is estimated that trade in these eleven items might increase to about 1,100 million dollars by 1975, without detriment to those lines of production which currently enjoy customs protection; it would be enough if the future growth of consumption allowed a sufficient margin for expansion of imports from other countries, in accordance with the alternative just referred to.

From another point of view, as progress is made in the introduction of more advanced techniques and the productivity of land and labour increases, substantial changes may take place in present cost relationships, and certain lines of production now requiring protection may thereby be placed in a position to compete.

[10] See footnote 5.

II. Specific solution of the common market problem

The Working Group has presented recommendations concerning the structure of the common market and the basic principles which should govern its operation, together with short explanatory comments on their significance.[11] There is no need to repeat here what has already been stated in the Working Group's report; all that is required is to draw attention to the fundamental characteristics of the solution submitted for consideration by the Latin American Governments. These characteristics relate to the following points: (*a*) stages in the establishment of the common market; (*b*) the specific form to be taken by inter-governmental commitments with a view to the gradual lowering of the level of customs protection and the abolition of non-tariff restrictions; (*c*) the constitution of an initial group of countries, the later incorporation of others and equality of treatment for equal stages of development; (*d*) differential treatment of goods according to the category in which they are classified; (*e*) differential treatment of countries according to their stage of industrial development, and taking categories of goods into consideration; (*f*) industrial specialization and complementary agreements; and (*g*) reciprocity in inter-Latin American trade.

[11] See pp. 39 *et seq.*

1. STAGES IN THE ESTABLISHMENT OF THE COMMON MARKET

Precisely because import substitution policy has been implemented in a series of watertight compartments, there has been a need for a degree of protection which, if warranted, generally speaking, by the fact that the productivity of industry is lower in Latin America than in the great industrial centres, is unduly high in relation to the necessity for improving the standard of living of the population. This protection is provided both by customs duties and by a wide variety of import restrictions, especially where the customs tariff has largely lost its efficacy as a result of inflation.

It is considered that within ten years from the signing of an agreement all such non-tariff restrictions might be superseded by a satisfactory credits and payments system (although this would not preclude the possibility of converting some of them into tariff duties); and that within the same period the average level of duties could be substantially lowered, while many of them might be abolished altogether among the contracting parties.

As customs protection *vis-à-vis* the rest of the world would be maintained, with the readjustments that will be indicated in due course, a preferential zone would then be created in Latin America in favour of the region's primary and industrial production, so as to give a vigorous impetus to inter-Latin American trade.

This would be a way of attaining a very important objective during the first phase, even if the common market were not yet fully established—namely, the liberalization of trade in a broader sense of the term. The establishment of the common market in its final form would have to be the work of a second phase, preceded by further inter-governmental negotiations to determine how the process of reducing customs protection might best be continued.

The common market agreement implies a decision of incalculable importance for the development of the Latin American countries. This is why the two stages referred to are deemed advisable. During the first, not only could restrictions be eliminated and tariffs substantially limited —a very important objective, as has just been pointed out—but also Governments would be able to acquire experience in which they are lacking at present, on which to base the establishment of the common market in its final form. There is in reality no ready-made formula for solving all the problems in advance. The common market must be shaped by a policy which aims at effectively overcoming the series of difficulties that will arise in the course of its gradual and progressive formation.

Notwithstanding the rapid progress made by the idea of the common market, it is impossible to disregard certain misgivings which only the wise application of such a policy could dispel. One of the gravest of these relates to the possible position of certain countries whose industry is not yet fully equipped to adapt itself to competition from other countries without incurring serious risks of distortion. Common market policy must embody elements of flexibility which enable such situations to be successfully dealt with.

For all these reasons, it seems desirable that the experimental ten-year period should be allowed to elapse before final formulae are established whereby due allowance could be made for initial disparities in the situation of the different Latin American countries, as well as for those which might develop as the common market evolved.

In any event, common market policy calls for strong conviction and clearly defined objectives. Were it to be applied as outlined, within ten years the situation would be ripe for the adoption of final decisions during the second phase. Otherwise, it would be of little use to establish from the outset definite formulae that by undue anticipation of events might lead to situations which were past remedying, and which, moreover, might be prejudicial to the very essence of the market.

2. FORM OF COMMITMENTS

At its first session, the Working Group recommended that the secretariat should study various procedures for reducing customs duties. The secretariat proposed that the target for the first stage should be the lowering of these duties to average levels which would imply a substantial lessening of existing protection. This idea was adopted.

It has the advantage—apart from the flexibility which is discussed in the appropriate context—of offering an extremely simple solution which would in all probability considerably facilitate the negotiation of the initial agreement. For example, if the objective established for the category comprising current consumer manufactures were the lowering of duties to an average of not more than 20 per cent of the value of imports by the end of the first stage, it would be unnecessary to stipulate in the initial negotiations how this reduction was to be applied to the innumerable items constituting this immense category. Furthermore, each Government would be free to alter or re-establish its tariff *vis-à-vis* the rest of the world and to replace restrictions by duties as it deemed best. But, whatever the procedure it adopted, it would be under the obligation to lower the average by gradual degrees until the level agreed upon was reached by the end of the first ten-year stage.

This does not of course obviate the need for negotiations, but it distributes them over the whole course of the period. In some cases a Government might perhaps reduce or abolish duties unilaterally. But in the majority of cases it would no doubt do so by means of bilateral or multilateral negatiations with other Governments, so that they might grant reductions in respect of goods in which it happened to be particularly interested, always with a view to arriving at the average agreed upon.

In this connexion, the procedure described offers the further obvious advantage of establishing a specific and clearly defined commitment. If this were not the case, and everything were left to the mercy of a series of successive negotiations, there would be a risk of failure to achieve the advances desired and even of bringing progress towards the common market to a standstill. It would be a mistake to suppose that the reduction and, in some instances, the abolition of duties would always prove an easy task. A fact which cannot be overlooked is that in many Latin American countries there are industries which are accustomed to an excessive degree of protection and in some cases to a system of bans which has completely obliterated the notion of external competition. However gradual and moderate the course of action adopted in these cases in order to avoid serious disturbances, many objections would have to be overcome. The simplest case would undoubtedly be that of the new industries towards which the policy of substituting domestic production for imports from the rest of the world is veering; here some unwillingness to eliminate duties might logically be expected. Yet it would not be surprising if each country felt some anxiety as to whether, in virtue of the abolition of duties, the new industries might be set up in the territory of other members and not in its own. The element of reciprocity to which reference will be made later[12] may help to dispel these fears. But the necessary negotiations would not be easy, especially as the activities which might become exporter industries and those which would be affected by imports are not the same. These problems could be gradually settled only at government level. Hence the supreme importance both of the Committee on Trade Policy and Payments, as the agency for these negotiations, and of the technical assistance which it would need in carrying out its functions.

Apart from the commitment to reduce tariffs to given levels, the common market would also entail pledges with respect to the tariff *vis-à-vis* the rest of the world. The final aim would be the establishment of a single external tariff, in order to ensure that all the contracting parties were in a position to compete on equal terms. But it would take some time to reach this goal, not only because of the complexity of the task, but also because some countries would have to recast their tariff entirely.

For these reasons, it is felt to be desirable that the task in question should be carried out a part at a time, beginning with those items or categories for which a single tariff is most essential in order to facilitate the satisfactory operation of the market. In some instances, for example, an unequal tariff for certain goods might encourage re-exports of products from outside the region to the country where duties were highest; and in others —especially in the case of raw or intermediate materials —the country with the lowest duties would be in the best position to compete against the others within the common market. All such points would have to be dealt with in a series of negotiations, until, with the passage of time, the common market was established in the form of a customs union.

In this progessive readjustment of customs duties *vis-à-vis* the rest of the world, the consideration of fundamental importance would, of course, have to be the ensuring of a margin of preference wide enough to promote the industrialization of Latin America and the region's gradual progress towards increasingly complex and difficult lines of production. To this end, would it be necessary to raise the existing average level of protection? No attempt has as yet been made to analyse this average—including both tariff duties and the effect of restrictions, but everything suggests that in a good many Latin American countries it is higher, relatively speaking, than in the rest of the world. Thus it might not be necessary to raise the average level of duties in order to enable the substitution process to be extended to new branches of industry; an increase in certain duties might be offset by a decrease in others. This would have to be achieved by means of periodic readjustments of duties *vis-à-vis* other parts of the world, since the industrial transformation of Latin America would not be compatible with the rigid establishment of a specific customs tariff.

There is yet another consideration which goes to strengthen the possibility that such readjustments might be effected without forcing up the average level of protection (taking into account both duties and restrictions). The common market would in fact tend to reduce production costs, and therefore to lessen the need for protection against the rest of the world. In the long run, it would be possible for Latin America's average tariff to be lower than at present, but this would take time, and in the meanwhile the objective would have to be the existing average level of tariff duties.

This possible reduction of the duties in question might be encouraged by similar measures to lower or abolish customs duties and restrictions in the rest of the world, especially in the great industrial centres, and in respect both of primary commodities and industrial products. There is nothing fanciful about the prospects for some of Latin America's industrial exports, and a satisfactory customs policy, in combination with other development measures, might have highly positive effects.

Thus, the common market would afford an opportunity of negotiating reciprocal tariff reductions as between the Latin American countries and the rest of the world, to the benefit of international trade; and such negotiations could undoubtedly be facilitated, from Latin America's standpoint, by the collective organization of the market.

Tariff reform will also be indispensable from another point of view. While in the countries which are large enough to carry considerable weight in aggregate figures the average level of protection is relatively high, in other small and medium-sized countries it is comparatively low. Thus the establishment of a single tariff would mean that for the same articles duties were reduced in some instances and increased in others, and this might possibly result in an average level higher than that already existing in some countries and lower in others, although without entailing any perceptible variation in the average level for Latin America as a whole.

All these considerations are in the nature of conjectures, the validity of which can be tested when the analysis of tariff incidence referred to above is completed.

[12] See sub-section 7.

3. THE INITIAL GROUP OF COUNTRIES, THE INCORPORATION OF OTHERS AND EQUALITY OF TREATMENT

Among the Working Group's motives for recommending the procedure based on the average tariff was the desire to facilitate the accession of new countries to the original common market agreement. In practice, an initial group of countries may possibly be formed, which is willing to embark upon the creation of the common market in conformity with the structure and principles recommended by the Working Group as bases for a general agreement. But it is recommended that all Latin American countries be invited to take part in the pertinent negotiations, so that they may be given equal opportunities for joining the common market. And it is no less essential that countries which do not become members at the outset should be able to subscribe to the agreement at any later time. The tariff averaging procedure would facilitate their accession considerably, since acceptance of the specific commitment which it implies would be sufficient qualification for membership without tedious initial negotiations.

If the accession of new members were not thus facilitated, there would be some risk that exclusive blocs might be formed. The initial group of countries would tend to withdraw into its shell, and other non-members might attempt to form similar and equally exclusive groups. And instead of one huge Latin American common market there would be, after a time, a series of sub-regional clusters, with as little inter-communication as characterizes the Latin American economy at present.

One of the Working Group's pre-eminent concerns has been to prevent the formation of these separate clusters. If an initial group of countries intends to begin putting the common market into effect without delay, the unwillingness of others to join them ought not to influence their decision in any way whatsoever. But it is essential that accession should be open to non-members at any time.

Geographical proximity is not in itself a factor which can generally warrant differential treatment in favour of the countries concerned. Undoubtedly, it affords natural advantages for trade among the countries thus linked, but why should such advantages be reinforced by those deriving from preferential customs treatment? Of more significance are the great possibilities attendant upon common economic interests, which transcend considerations of geographical proximity. A common market whose bounds were wider than those set by mere proximity would enable common interests of this kind to be fully exploited. For example, why should not machinery produced in Mexico or Chile be allowed to enter Colombia on the same terms as those granted to Venezuela, if the former countries were willing to make reciprocal concessions in fulfilment of their obligation to reach a given average level of duties? And why should not the products of Cuba enjoy the same treatment in Brazil as those of Uruguay?

All this is of vital importance for the future of the common market. The introduction of differential practices within the broad preferential system which it is desired to establish in Latin America entails the risk that ultimately a jigsaw puzzle of situations may be created, in which a different duty is or is not payable on each article according to the Latin American country from which it comes. Bilateralism has already set up a differential system of which the final outcome has been the restriction of trade. The spread of these preferences would complicate and distort intra-regional trade relations to a far greater extent still. Furthermore, it should not be forgotten that the larger the number of countries subject to the same treatment, the wider would be the sphere of competition and specialization, and the more effective could the common market then become.

It must be recognized that in some instances differential treatment might represent the easiest and most expeditious solution of a circumstancial problem. One country might conceivably be able to export a given product to another only if the latter were to offer it special customs treatment in return for a similar reciprocal concession. The success of this operation lies in forcing other countries out of the market. But if the system were generally adopted, and those other countries followed the same course, they in their turn would exclude the first two from their own differential arrangements. It is precisely in the dissemination of the procedure that the element of danger lies.

To prevent this possible fragmentation of the common market, which would undermine its fundamental advantages, the Working Group stresses the desirability of applying the most-favoured-nation principle, with no exceptions save those that will be explained in due course.[13] By virtue of this principle, when a contracting party abolished or reduced a customs duty (or a restriction), the concession would be automatically applicable to imports from all the other contracting parties, whether the country in question were to adopt this measure unilaterally or as the result of negotiations.

Negotiation would be the procedure more commonly followed. Once the agreement had been signed and the average level of customs duties which the countries pledged themselves to reach in ten years' time had been determined, negotiations relating to the gradual implementation of this commitment would begin. As they proceeded, one country would show willingness to abolish or reduce the duties it levied on certain goods which were of special interest to a second country, provided that this latter did the same by products of special interest to the first. The most-favoured-nation principle entails the automatic application of these concessions to the other members of the market.

The following is the first question which logically arises: why should these other countries benefit by such concessions unless they make corresponding offers in return? The reply is simple. The negotiation which began bilaterally would have to be extended on multilateral bases before it was concluded. Thus, if countries decided to grant each other reciprocal concessions, at a given moment they would deem it advisable to invite

[13] See the end of this same sub-section 3.

others which would benefit by them to participate in the negotiation so that they could offer concessions of their own. Hence the desirability of conducting such negotiations within the Committee, or reporting them to it in due course, unless a decision is taken to negotiate on multilateral bases from the outset.

It might happen, however, that a country, knowing that under the most-favoured-nation clause the concessions granted by others would be extended to it automatically, did not show itself prepared to grant concessions in return. If it were not for the commitment to reduce the average level of duties by degrees, such an attitude would give cause for anxiety. But since this commitment is contemplated, the country which was unwilling to negotiate would in any event be obliged gradually to carry out its programme of reductions and abolitions until the level agreed upon were reached, and those concessions would be unconditionally applicable to all the other contracting parties. In the long run, it would turn out that the country concerned, by holding aloof from the negotiations, although it would enjoy the benefits resulting from those conducted by others, would have thrown away its opportunity to secure the reduction or abolition of duties on goods of special interest to it, in return for reductions or eliminations which it would in any case have to make under the terms of the agreement.

Further emphasis must here be laid upon the fundamental significance of the commitment to arrive at certain average levels of duties. All countries at the same stage of economic development would have to bring their tariffs into line with the average levels agreed upon, whatever part they might or might not have taken in the negotiations. These latter would influence the selection of the goods on which duties were to be abolished or reduced, but not the average levels which in any event would have to be reached, whether for those articles or for others. All that matters is that at the end of the first ten-year stage the level of inter-Latin American customs protection should be substantially lower. Once this stage was over, a country would be able to go on according protection to certain goods in each category, but the higher the level of this protection, the lower would have to be that granted to the other goods entered in the category concerned, and the longer the list of duties eliminated would be likely to prove. In other words, despite the survival of certain forms of protection which each country might have deemed it wise to maintain for the encouragement or support of other industries, the commitment to arrive at a relatively low average level of duties would lead to the reduction or abolition of those levied on the remaining items, and this would contribute to the progressive enlargement of the sphere of trade.

All the countries at much the same stage of development would have to bring their tariffs to the same levels, whatever the point of departure. If a country's original average were very high in relation to that of others, it would have to reach the common average by the end of the first stage. And if a country substituted customs duties for its restrictions and established a very high tariff *vis-à-vis* the rest of the world, it would also have to conform to the average agreed upon for each category of goods. Whatever the intermediate negotiations, the goal would have to be the same for all countries at the same stage of economic development, i.e., a single level of tariff incidence for every category of goods.[14] It was previously stated that the Working Group had recognized certain exceptions to the application of the most-favoured-nation principle, and it is worth while to mention at this point that one of them relates to the situation created by the Central American Economic Integration Programme. The five member countries, with the active co-operation of this secretariat, have formed a free-trade zone with a view to the subsequent establishment of a customs union; and they have consequently agreed to eliminate duties on a given list of articles within the space of ten years. How could this arrangement be reconciled with a Latin American common market agreement? It is perfectly conceivable that these countries should have three tariff levels, as follows: (*a*) one, the highest, for the rest of the world; (*b*) a second and intermediate level, for the other Latin American members of the common market; and, lastly, (*c*) the tariff level agreed upon among themselves, which would of course be the lowest.

In this way, the industrialization of Central America, as well as its primary production, could be developed on a basis of ever-greater trade facilities within the area, and would enjoy protection not only with respect to the rest of the world, but also *vis-à-vis* the Latin American countries at a more advanced stage of industrialization, in accordance with the differential treatment in favour of countries in the initial stages of development which will be discussed later.[15]

The Central American countries might be granted special concessions by the more advanced countries which would provide stronger incentives to industrialization than could arise within Central America itself. Thus, all the considerations formulated in the relevant section of this report[16] with respect to countries at the initial stages of development are applicable to the Central American republics, and lead to the conclusion that their accession to the Latin American common market, far from being incompatible with their integration programme, might considerably facilitate the attainment of its essential aims.

In any event, it must be pointed out that the reduced duties which might be agreed upon among the Central American countries themselves, at a level below that fixed for the common market, would not be applicable to the other Latin American countries, in accordance with the exception recognized by the Working Group.

The Group has likewise accorded recognition to the desirability of making such exceptions to the most-favoured-nation principle as might promote industrialization in countries at the initial stages of development;

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[14] See sub-section 4 below.

[15] See sub-section 5 below.

[16] *Ibid.*

and also, lastly, to temporary exceptions applicable in the case of industrial complementarity or specialization agreements,[17] and in that of certain existing discriminations which would be modified gradually, so as to avoid abrupt distortions of trade until they disappeared altogether.

4. CATEGORIES OF GOODS

From the standpoint of the goods traded, attention may be called to two major common market objectives: (*a*) the improvement of traditional trade in primary commodities; and (*b*) the creation of trade in industrial products.

As is common knowledge, relatively few primary commodities are involved in inter-Latin American trade, and for most of them restrictions and tariff duties could be eliminated as recommended by the Working Group, with the saving clause as to certain agricultural commodities which is based on considerations mentioned elsewhere.[18] All these items are included by the Working Group in category A.

With respect to industrial products, the Working Group recommends that they be divided into two broad categories—B and C—according to the intensity of growth of demand and to the margin available for import substitution. In category B are grouped all those industrial goods for which demand increases with relative intensity (in comparison with demand for those in category C) and in respect of which there is also a wide margin for import substitution. Consequently, production of these items is likely to expand substantially, for not only is demand intensive, but it will be possible for an increasing proportion to be satisfied within the common market, by virtue of the relatively slow development of the capacity to import. In category C, on the other hand, appear those industrial goods for which demand is relatively slow-growing, and in respect of which there is no longer an appreciable margin for import substitution in the Latin American countries at a more advanced stage of industrialization, the process having been practically completed.

There would be very marked differences in the rate at which production of goods in these various categories would have to expand on the assumption of a 2.7-per-cent annual increase in the average *per capita* product, implying an increment of about 185 per cent in Latin America's total product by 1975. Roughly speaking, current agricultural production would have to be rather more than doubled, increasing by 120 per cent, while the output of consumer goods would have to expand somewhat more intensively (foodstuffs, beverages and tobacco manufactures by 130 per cent, and textiles and made-up textile goods by 200 per cent). On the other hand, as was stated elsewhere,[19] production of machinery and equipment would have to increase a considerable number of times over.

Production of passenger cars ought also to undergo very intensive expansion. Suffice it to point out that demand projections indicate a possible fifteenfold increase by 1975 in relation to current demand, which in most countries is restricted by the shortage of foreign exchange; or, in other words, that the present figure of 115,000 units would rise to something in the approximate neighbourhood of 1,800,000 units, given the assumptions adopted as to the growth of the product. Figures of this magnitude are a sufficient indication of great possibilities for economic production, if the watertight-compartment system is not maintained.

Many of the goods included in category B are not yet produced in Latin America, so that there should be no very formidable obstacles to the immediate abolition of duties. In other instances, production has barely begun, and existing duties could be eliminated or considerably reduced within a reasonable space of time. Moreover, even in those cases in which production is in full swing, the gradual readjustment of duties in face of an intensively expanding internal demand might afford a margin for specialization. It is thus understandable that the Working Group should recommend a very moderate level of duties as the target for the end of the first stage, in order to provide the maximum incentive to trade in such goods.

On the other hand, for the current consumer goods constituting category C, it was considered wise to recommend a more sober rate. Precisely because the industries concerned are already in existence and their output—at any rate in the larger countries—could not be expanded rapidly for the reasons already noted, there would be more difficulties in the way of readjustment and specialization than in the case of category B. Hence the average level of duties would have to be higher than for this latter.

Elsewhere, however, especially in the small countries, these industries are non-existent or only in their initial stages, and up to a point are in much the same position as the machinery and equipment industries and other category B activities in the more advanced countries. This might have suggested that a relatively low average for current consumer goods industries in the smaller countries would be an advisable target; but there are other weighty arguments in favour of the opposite course, as will be seen below.

5. DIFFERENTIAL TREATMENT IN FAVOUR OF COUNTRIES AT THE INITIAL STAGES OF DEVELOPMENT

It has been repeatedly pointed out that the chief weakness of the industrialization process consists in the fact that it has developed in watertight compartments, within which each country attempts to do the same as the rest, without specialization or reciprocal trade. The aim of the common market is not only to link up these different compartments, but, above all, to prevent the continuance of this type of development in the new industries which Latin America will have to promote.

This on the one hand; on the other, a higher average level of protection is recommended for countries in the

[17] See sub-section 6 below.

[18] See section I, 9.

[19] See section I, 8.

early stages of industrial development than for those which have advanced farther along the road. Is there not something contradictory in this? Would it not induce the former countries too to adopt the watertight-compartment policy? These countries must unquestionably become industrialized as improved techniques are introduced in their primary activities. Undoubtedly, too, without a higher degree of protection their industry would be prevented by its lower productivity, which is partly attributable to the narrower market at its disposal, from withstanding the competition of the larger countries. This need for a higher average level of protection would therefore have to be reconciled with the desirability of avoiding such a distortion of the industrialization process by dint of specialization and reciprocal trade. The Working Group has endeavoured to achieve this end through a system of special concessions.

It would be to the interest of the more advanced countries of the region that those whose industrial development is in its initial stages should open their market to the industrial goods produced by the former, i.e., machinery and equipment, motor vehicles, intermediate products and an immensely wide range of current consumer manufactures. Countries in the early stages of development do not possess such industries, and are bringing in imports from outside the region, frequently with low customs duties. For duties to be reduced or abolished among the Latin American countries would therefore not be enough to create a preferential area; in most cases they would have to be increased to a moderate extent in trade with the rest of the world.

What concessions would the more advanced countries grant in return to those in the initial stages of development? Everything suggests that favourable customs treatment for their products would not suffice. Since, by virtue of the most-favoured-nation clause, such treatment would also have to be extended to all the other advanced countries, there is little likelihood that the less developed countries could compete with them at any rate to begin with. It is to meet this difficulty that the special concessions are recommended. The reduction or elimination of duties accorded by a more advanced country to one in the initial stages of development would not be extended to all the other Latin American countries, but only to those that were less developed. These latter would thus be able to benefit by the expanding market of the more advanced countries without interference from third parties.

The more advanced country in its turn could carry these special concessions much farther if they were confined to the less developed countries, and were not extended to others that had progressed farther. This applies particularly to industries already in existence. When an advanced country abolished or reduced duties on goods from countries at the initial stages of development, the relatively small size of the latter would mean that the competitive impact of their products in the more developed country might be much the same as that of the creation of new establishments within the same industry in the normal course of industrial growth. Presumably, therefore, the difficulties encountered would not be as great as if concessions were extended to imports from countries which were so industrially powerful that they might come to exert a very strong influence on the market.

This system of special concessions offers countries at the early stages of development an alternative which would not otherwise be open to them in their industrialization process. Instead of developing their industries in isolation, on the basis of excessive customs protection, they would be able to abolish or reduce their duties on a large number of industrial goods, in return for the effective opportunities which they would be afforded in respect of other goods in the markets of the more advanced countries.

In this way, countries in which industrial development was only just beginning, instead of attempting to establish consumer industries of every kind, would take advantage of the export opportunities referred to in order to encourage industries which would have access to the market of more advanced countries as well as to their own. There would thus be definite possibilities for industrial specialization and reciprocal trade which would not arise but for the special concessions system. Mention of the consumer industries does not imply that the less developed countries might not also specialize in certain capital goods and other products in category B. In fact, there would be nothing to prevent a country at the initial stages of development from promoting the manufacture of certain lines of machinery, for example, for which the local market afforded a reasonable basis.

This remark is particularly applicable to countries in an intermediate position. Between the countries in the initial phase of industrial development (group III) and those at more advanced stages (group I), it is recommended that a middle group II be established, comprising countries which, although they have made some progress in the field of consumer industries, have not yet installed those producing capital and intermediate goods, or have only just begun to develop them.

In the case of these countries in group II, a higher level of protection is again recommended for goods in category B, in respect of which their development is in the initial phase, but not for those in category C, manufacture of which is relatively well developed. This means that, in addition to the consumer industries already established, they could develop the manufacture of capital goods and intermediate products under the protection of customs duties. And, as in the preceding instance, they would be able to choose between developing these industries in a sealed compartment, with all the attendant drawbacks, or aiming at specialization, with access to the market of the more advanced countries under the special concessions system.

The reasons why these special concessions could not be extended to the more advanced countries have already been explained. There are clear arguments here in favour of an exception to the principle of the most-favoured-nation clause. But this exception would in any case be partial, since the special concessions granted to any country in group II would have to be extended not only to all the countries in that group, but also to those in group III. This is logical enough, since the justification for such a step is that it would promote the interests of countries at the initial stages of industrial development. Those in group III are still weaker than those in group II, and would naturally have to share in any benefits the latter might be accorded. The same would not be true of special concessions obtained by a country in group III, which would be extended only to the countries in the same group, that is, to those at a similar stage of economic development and not to those which had advanced a little farther.

All this once again shows that if the common market agreement would solve problems of fundamental importance, there would still be others that could be settled only by means of careful negotiation. However, the agreement sets up a preferential framework within which such difficulties could be overcome, and offers Governments the necessary instruments for dealing with them to their common advantage. The higher levels of protection for countries at the initial stages of industrial development—with respect to category B or C or both—would not in themselves solve the problem of the industrialization of the countries concerned, but they would place the latter in a position to negotiate with the more advanced countries for special concessions which would promote their industrialization on sound lines. In the last analysis, the final solution would depend upon wise handling of the instruments of negotiation within the over-all framework to which allusion has just been made.

6. Industrial complementarity and specialization agreements

The other important exception of the most-favoured-nation principle relates to these agreements; but here again it is an exception calculated to promote, rather than to militate against, the final objectives of the common market. A case in point might be that of a country which is proposing to develop production of motor vehicles, an activity that requires the co-operation of a series of subsidiary industries. Instead of attempting to develop all these industries in its own territory, the country in question would offer preferential treatment to imports of certain parts or pieces from other countries in return for the granting of preferential treatment to the finished product. This would permit the integrated development of the industry. Without such preferential treatment, it might have to be integrated in a single country at high costs; with it, integration could be effected on economically sounder bases, so that, after a time, both the final product and the component parts could develop within the common market, with no preferences whatever except *vis-à-vis* the rest of the world.

The advantages are as obvious as the drawbacks. Were agreements of this kind to become very common, they might give rise to exclusive groups which in the last analysis would hinder the formation of the common market. It is therefore recommended that such agreements be subject to approval by the Committee, a procedure which offers all the contracting parties a guarantee that their interests and points of view will be duly taken into account. In addition, a definite time-limit might be imposed for such agreements.

The case cited above relates to the establishment of a new integrated industry with the co-operation of two or more countries. Again, recourse to a similar procedure might conceivably serve to strengthen certain existing industries and place them in a position to reduce or eventually abolish their customs protection. To take, for example, the case of the textile industry in countries which are linked by geographic proximity, and which are all trying to produce the same goods and therefore failing to set up industrial plants of economic and rational size; it would be worth while to consider the possibility of a readjustment of customs duties which would permit of specialization. There are weighty arguments in favour of confining such agreements to a few countries, as, if the number of signatories were to become too large, negotiation would prove more complicated and perhaps impossible. Similarly, the participation of more distant countries with efficient industries would seriously handicap specialization in those linked by geographic proximity. By virtue of such specialization agreements, industrial plants could attain satisfactory dimensions, increase their productivity and ultimately withstand the competition of those other countries in the common market, when the time-limit set for the special preferences in question had expired.[20]

An important point in the Working Group's recommendations in this connexion is that reductions of duties granted under these special agreements are not computed in the average levels agreed upon. This means that the countries concerned would have to effect the reductions inherent in the attainment of those average levels and applicable to all the contracting parties, and that the special reductions of a preferential nature would be made in order that the policy of progressively lowering the level of protection might be carried farther, not with a view to restricting its scope.

7. The essential principle of reciprocity

Careful reflection will show that the fundamental objective of the common market, apart from improving traditional trade in primary commodities, is to ensure the rational industrialization of the Latin American countries. For this purpose it is indispensable that import substitution policy should no longer be implemented in watertight compartments, but that it should be possible, thanks to a large-scale effort in the direction of industrial specialization and reciprocity, to

[20] The Working Group did not recommend any time-limit for the duration of the special preferences implied by such agreements, on the assumption that they would disappear of their own accord when, in the course of the reduction of duties, the level established by these preferences was reached. Nevertheless, consideration might well be given to the suggestion formulated by one of the members of the Group that a definite time-limit should be established.

purchase from other Latin American countries goods formerly imported from outside the region. It is also essential—as has already been pointed out—that the country thus receiving imports of manufactured goods should be able to cover them with its own exports of industrial products as well as of primary commodities. Otherwise, such a policy would give no impetus to its industrialization, but in the last analysis would simply mean that foreign exchange which had formerly been used to pay for imports from the rest of the world would be transferred to other Latin American countries.

This applies to new lines of import substitution; but within the common market a country would also be able to meet with intra-regional imports all or part of the increase in demand for goods in respect of which substitution had previously taken place. In this connexion too it is important that in order to cover such purchases the country in question should be able to expand its own exports, as otherwise they would not further its own industrial growth.

It is not that a payments problem would necessarily arise. A country which, instead of producing the goods it wished to replace at home, purchased them from other Latin American countries, or which satisfied an increment in demand with imports from such sources, might have enough foreign exchange to do so if its payment account with the rest of the world showed a positive balance. What would take place in such cases would be simply a transfer, from the standpoint of the balance of payments. It should be borne in mind, however, that the Latin American countries have often been obliged to resort to import substitution on account of a current or foreseeable deficit in their total balance of payments, and that this deficit would persist if the import trade formerly conducted with the rest of the world were diverted towards other Latin American countries without being covered by additional exports.

In any event, if a country imported from other Latin American countries goods which it had formerly received from the rest of the world, whether it had or had not a deficit in its aggregate balance of payments, its ability to finance such imports with additional exports would be a decisive factor in the smooth operation of the common market. Otherwise, it might be to the advantage of the country in question to refrain from joining the common market and continue the process of import substitution in watertight compartments, which would be extremely regrettable from the collective standpoint.

Parity between the advantages which a country effectively offered to the other members of the common market and those it was accorded by them would be of crucial significance for industrial development and the rate of economic growth. This point deserves very special consideration. The possibility must of course be recognized that one or several countries might be competitively powerful enough to dominate the market of the others without these latter having been able to achieve a correlative expansion of their exports. Steps would have to be taken to prevent situations of this kind from bringing restrictive measures in their train; it would be preferable for the former more privileged countries to promote their own imports from the common market by accelerating the rate at which they abolished and reduced their customs duties or restrictions.

At the same time, special co-operation would have to be accorded to countries in a weaker competitive position than the rest. In its first report, the Working Group recommended the advisability of granting liberal technical and financial assistance for the development of industries and other activities related to the common market, and this is one of the cases in which such co-operation might play a decisive part in enabling the less developed countries to solve their problem.

However, it must be acknowledged that this possible co-operation, or the additional liberalization measures which might be adopted by countries whose position in the common market was advantageous, do not carry enough conviction to overcome the reluctance of certain countries to assume the commitments inherent in the common market. It would therefore seem essential to offer them a guarantee that if their unfavourable situation persisted despite such action to remedy it, they would be empowered in their turn to slow up the rate of reduction and abolition of their duties and restrictions, so that by the end of the first stage their average level of protection would be higher than it normally should have been under the agreement.

At the meetings of the Working Group concern was clearly evidenced as to the following possibility. If a country's wage and cost levels were much higher than those of the rest, the progressive reduction of its duties and restrictions might help to bring about a more rapid expansion of its imports from the common market than of its exports, at the expense of its own industrial growth. But there is no reason why a country in which wages were relatively high should not be able to develop certain highly advantageous industrial exports, especially if it were relatively well supplied with capital and had easy access to the sources of modern technique. Even so, it is understandable that a country in this position might be prepared to join the common market only if it had the right to slow up the rate of reduction of its customs protection, should circumstances so demand, in the course of this first experimental phase. This is an important point which has been left open for later discussion.

In cases like the one just mentioned, it is usual to advocate devaluation of the currency as a means of levelling up internal and external prices and costs, together with taxes to absorb the extra profits consequently accruing from exports. But devaluation of the currency is a measure of immensely far-reaching importance because of its economic and political repercussions, and could not be recommended as a means of solving an inter-Latin American trade problem unless weighty factors affecting the country's whole economy turned the scale in its favour. In any event, if the aim of devaluation was to counteract the effects of the reduction of duties and restrictions, would it not be simpler to slow up the rate of such reductions?

III. The common market payments and credits system

1. THE ROLE OF CREDITS IN THE PRACTICE OF THE PRINCIPLE OF RECIPROCITY

The purpose of the arguments set forth in the foregoing pages was to show the desirability of the common market and the practicability of gradually establishing it on the basis of realistic formulae. But however great the conviction which these possibilities inspire, the specific incidence of the common market on each individual country cannot be forecast with reasonable accuracy. It is thus essential that in this development process, vitally important as it is for Latin America, common market policy should be sure of having at its disposal the necessary instruments whereby to remedy the unfavourable situations in which some countries might find themselves, especially in the early stages.

The specific solution arrived at after careful analysis is based on the following fundamental concept: it would be incumbent upon member Governments to create conditions conducive to the efficacious action of private enterprise within the common market. Trade restrictions would be abolished, customs duties would be reduced or suppressed, but it would be private enterprise that in the final issue would decide which industries were to be established, in which countries they were to be installed and what degree of specialization was to be attained.

Such a policy would indubitably give considerable impetus to industrialization and reciprocal trade, not only in industrial products, but also in primary commodities—both those which are traditional trade items and others in which there has been little trade as yet. But no one could predict exactly what form its effects would take in the various countries, or, in other words, how far each of these would share in the advantages of the common market.

Hence the importance—which may be decisive—of the principle of reciprocity expounded above.[21] Unless this principle were clearly defined at the outset and there were some guarantee that the benefits derived by any one country from the common market would be reflected in correlative advantages for the market itself, it would not be surprising if some countries hesitated to accede to the agreement or were over-cautious in their trade liberalization commitments. All this would affect the degree of success achieved by the common market, since the larger the number of member countries and the farther the reduction or elimination of duties and restrictions were carried, the greater would be the possibility of equitable distribution of the advantages in question.

But the pledge of reciprocity alone would perhaps not suffice to convince each and every country that the risk of damage to its interests would be minimal in comparison to the magnitude of the benefits accruing from the common market.

The fact that countries with a persistent credit balance would be under the obligation to expedite their liberalization measures[22] and even to increase the degrees of preference accorded, is of primary importance for the implementation of the principle of reciprocity. But some time would generally have to elapse before a decision to apply such measures could be adopted, since the disequilibrium might prove to be temporary and consequently not to call for major readjustments. Similarly, should the application of broader liberalization measures prove advisable, it would be some time before the results aimed at could be obtained. Meanwhile, debtor countries would find themselves compelled to use their dollar reserves to cover their commitments with creditor countries. This possibility might be reflected in an unduly negative attitude and induce countries to assume liberalization commitments much less sweeping than they would be willing to accept if a satisfactory system of multilateral credits existed, whereby the use of dollars would be reduced to a minimum. The more facilities were provided by this system, the farther would the Latin American countries be able to carry their policy of liberalizing trade within the preferential framework of the common market.

2. BILATERAL-ACCOUNT AND MULTILATERAL-ACCOUNT COUNTRIES

The main obstacle to the organization of such a system is the way in which countries are at present divided into two groups, according to whether they conduct their inter-Latin American trade on bilateral or multilateral bases.

About 66 per cent of inter-Latin American trade is conducted through bilateral accounts, as can be seen from the following data.

Inter-Latin American trade, 1955

	Millions of dollars [a]	*Percentage of total*
Bilateral trade	484	66
Trade in petroleum	181	25
Other multilateral trade	72	9
TOTAL	737	100

[a] At current prices.

The remaining 34 per cent represents multilateral trade, and, of this proportion, 25 per cent is accounted for by petroleum and its derivatives, and only 9 per cent by other trade items. It is worth while to note that the

[21] See section II, 7.

[22] This term is used in its broadest sense—abolition of restrictions and reduction or elimination of tariff duties.

share of multilateral trade is relatively small if petroleum and its derivatives are excluded.

Bilateral trade is concentrated in the southern countries of South America, especially Argentina, Brazil, Chile and Uruguay. Here the use of dollars to cover balances has been reduced to a minimum, thanks to a system of ample credits which enables the debtor country to defer its payments until a restriction of the exports or an expansion of the imports of the creditor country gives rise to the positive balances needed to cover the credits concerned.

The bilateral system is of course incompatible with the principle of the most-favoured-nation clause on which the common market is based. In fact, the need to compensate one country's exports to another with the latter's imports often leads to discriminatory treatment against imports from third countries. Discrimination of this kind is inconceivable within the common market, except when it is aimed at benefiting countries at the initial stages of development, or is of a temporary nature and designed to promote industrial complementarity or specialization agreements, as already described.[23]

This and other serious drawbacks involved in the bilateral system are all too well known. Nevertheless, as the bilateral-account countries generally labour under a severe shortage of foreign exchange, it is understandable that they should be reluctant to abandon the system. Some anxiety is felt, in fact, lest the restoration of multilateralism might mean that a Latin American country had to cover its intra-regional balances in dollars that it could otherwise have used for imports from the rest of the world, which it urgently requires and which must be paid for in that currency.

Until recently, this consideration led the bilateral countries to oppose the transfer of balances from one bilateral account to another. Thus, A's positive balance against B cannot be used to pay off a debt to C. B objects, for if it becomes C's debtor, it has no means of knowing whether the latter will be able to purchase imports in sufficient measure for the debt to be cancelled. Were this not the case, B would have to pay the net balance in dollars.

It often happens that the debtor country is not an exporter of the goods that the creditor country is interested in bying; but if the number of countries among which balances are transferable is enlarged, the range of goods that can be purchased is widened. Thus, C, which at present has a credit balance against B, may not be able to buy from this latter the goods it needs to import; on the other hand, it may be able to obtain them from D or F, which in their turn may be interested in B's exports.

With this extension of the sphere of transfers, the likelihood that compensation can be effected increases, and that of final settlement in dollars becomes more remote. But this is simply a piece of logical reasoning, and it is understandable that those Latin American countries which are accustomed to the bilateral system should be concerned lest such multilateral transfers might involve them in the disbursement of considerable sums in dollars.

Nor are the multilateral countries much inclined, as a rule, to join in a system of ample credits, when as things are at present they receive immediate payment in dollars for their exports. This applies mainly to the petroleum-exporting countries, which account for 25 per cent of inter-Latin American trade.

The volume of other multilateral trade is relatively modest, since it amounts to barely 9 per cent of the total;[24] and among the countries concerned, objections to a multilateral credit system are less in evidence. What is more, in some of them may be noted a certain tendency to establish bilateral accounts and credits as well, so that they can conduct a brisker trade with the southern countries. But this praiseworthy aim entails an obvious risk. It might lead to the propagation of bilateralism, instead of the gradual extension of multilateralism without which it would be impossible for the common market to operate satisfactorily.

To forestall this risk, it would be desirable to seek some formula whereby the multilateral-account countries could fulfil their intention of expanding their trade with those that maintain bilateral accounts, but without abandoning multilateralism.

Moreover, as an outcome of the recent session of the Central Banks Working Group at Rio de Janeiro, the bilateral countries would appear to be willing to accept certain limited transfers of balances in their bilateral accounts, under the system established by the Protocol there adopted and on the basis of two types of compensation, automatic and voluntary, to be effected periodically.[25] This is merely a beginning, but an extension of such a system might gradually lead to multilateralism.

In this connexion, a recommendation was made to the secretariat at the same Rio de Janeiro session that it should study the possibilities of extending these transfers among bilateral-account countries and seeking some common ground for both them and the countries engaged in multilateral trade. To this end, the Secretariat examined the possibility of setting up a compensation centre which might ultimately become a payments union.

Events have followed a similar course in the countries of Western Europe. In the post-war period they too conducted their trade through bilateral accounts, and have onlyy recently reached the stage of absolute multilateral transferability of balances, not only among themselves, but also between them and the rest of the world. They began in the first place with limited transferability of bilateral-account balances; then they moved on to free transferability of all their own reci-

[23] See section II, 5 and 6.

[24] See again table on p. 22.

[25] For the text of this Protocol, see the Report of the second session of the Central Banks Working Group (E/CN.12/C.1/10), resolution 4, p. 32.

procal balances, by means of the organization of a payments union with the financial support of the United States; and, lastly, the success of the payments union paved the way for the complete restoration of multilateralism.

3. Proposals for a compensation centre

Before an attempt is made to sketch the possible features of a compensation centre, a brief reminder of the characteristics of a payments union may be useful. Under such a system, each country is accorded a credit by the rest through the payments union, which grants them another in its turn. Both these credits are in units of account. Similarly, all trade operations are compensated within the union; a net debit balance is covered with the credit received, and a net surplus with the credit granted. If balances exceed the amount of the credits, the sum by which they do so will have to be liquidated in dollars, according to the regulations and in the proportions previously established. Compensations are effected on multilateral bases, and one country's debts are offset with the sums owed to it by others, without any kind of bilateral settlement whatsoever.

The compensation centre would have these same characteristics, but with the following difference: multilateral-account countries would use the whole and bilateral-account countries only a part of their balances for compensation purposes. Each bilateral-account country would transfer to the compensation centre a proportion of its bilateral balances which to begin with might be, for example, 10 per cent, and which would gradually increase in the manner to be described later; in addition, it would transfer its total balances with the multilateral countries. All these balances would be periodically compensated, and the resulting net deficit or surplus would be absorbed, respectively, by the credit granted to each country or by the credit which each country had accorded to the rest, while excess balances would be liquidated in dollars in the form agreed upon, as shown elsewhere.[26]

In this way, as far as the bilateral-account countries were concerned, one system would be superimposed upon another. A proportion of the balances—90 per cent in the case cited—would remain subject to the bilateral régime; the rest, like operations with the multilateral-account countries, would be compensated multilaterally through the centre. Another possibility would be the transfer of amounts by which balances exceeded the bilateral credits, in addition to the proportion just referred to.

This superimposition of one system upon another would not be a lasting arrangement. On the contrary, the bilateral balances would be transferred to the centre in proportions which progressively increased until they reached 100 per cent, when bilateralism would be completely superseded by the multilateral system. The centre would then have become a true payments union.

[26] *Op. cit.*, paragraphs 59 and 60.

What would be the criterion governing the gradual enlargement of the transferable or compensable proportion of the bilateral balances? It would depend basically upon the evidence of practical experience that transition to multilateralism would not involve the bilateral-account countries in large-scale diversion of the dollars they needed for their purchases from the rest of the world.

The bilateral equilibrium which has hitherto been sought is not based on a theoretical principle, nor does it represent an unshakable attitude. If a bilateral-account country which was in a persistent debtor position through the centre *vis-à-vis* the others as a whole could be reasonably sure that this situation would be remedied as its exports expanded, so that its dollar reserves would not be seriously affected, there would be no reason to suppose that it would object to increasing the transferable proportion of its bliateral balances by gradual degrees, and compensating them multilaterally.

How could the debtor country be given this reasonable assurance that such balances would in one way or another be converted into purchases of goods and services? Experience alone can say. It is very easy to understand that the countries maintaining bilateral accounts should be unwilling to demolish this system until they have been given proof that the proposed alternative is a good solution; they have taken great trouble to build it up, and have achieved a type of equilibrium which, despite its drawbacks and the trade inflexibility which it implies, does enable them to avoid using dollars. If experience shows that within a group of countries a similar result can be achieved without the rigidity inherent in the bilateral system, the arguments on which bilateralism has been grounded will no doubt disappear.

However, it is not surprising that until the experiment has yielded positive results, the bilateral countries should wish to retain the system of bilateral accounts, under which the creditor country is in practice given incentives to increase its purchases from the debtor, so that the credit can be gradually liquidated, and the debtor country prevented at the same time from restricting its imports.

The satisfactory operation of the multilateral system would really depend upon how far those countries whose common market advantages tended to place them in a persistent creditor position took steps to encourage their import trade. An explanation has already been given elsewhere of the decisive importance of the principle of reciprocity,[27] in conformity with which no country could lay a standing claim to more benefits than it offered others in its own market. Apart from the responsibility which this principle lays upon the country with a persistent credit balance, the country with a persistent deficit would also need to have means of self-protection at its disposal in case the measures adopted by the former should fail to serve the desired purpose.

The application of this principle of reciprocity would reduce to a minimum the need for dollars to be used to

[27] See section II, 7.

settle balances in excess of the credit limit granted to a country by the centre. To this end, credits would have to be ample, as the Working Group has recommended, and adequate time-limits would also have to be allowed for their liquidation in dollars. The purpose of all this would be to give the creditor country incentives to the immediate application of measures aimed at increasing its imports, and to allow time for such measures to bear fruit. Furthermore, experience has shown that in the southern countries of South America surpluses alternate with deficits, and, if credits were ample enough to cover these vicissitudes, the need to use dollars would be lessened to a considerable extent.

It is also possible to visualize other forms of credit, not this time in units of account, but in dollars, which would expedite the re-establishment of multilateralism. Such a system, however, would require a mass of manoeuvre in dollars which is wanting in Latin America at present, particularly in those countries which are characterized by their chronic shortage of foreign exchange. If the possibility of setting up a large enough fund of foreign currencies existed, and if countries with a deficit could draw upon it for the dollars they needed for the prompt settlement of balances in favour of the creditor countries, the payments system would acquire considerable liquidity.

For the debtor countries, there might be no difference between owing units of account to a compensation centre or dollars to a fund, if the two debts had to be settled at the same time and amounted to the same sum. On the other hand, the situation would be different for the creditor country. If the debtor countries made use of the margin of credit granted through the centre, the creditor country would not receive payment in dollars immediately, as it would in the second case, in which the debtor would draw upon the fund for dollars and would make payment to the creditor country forthwith. Which of these procedures would more effectively promote the attainment of common market objectives?

In this connexion the allusion made to the creditor countries' responsibility should be recalled. It would be incumbent upon them to adopt measures with a view to expanding their imports from the common market, speeding up the rate of liberalization of their import trade and increasing the margin of preference should circumstances make this desirable. Would the creditor country's inducements to adopt such measures be the same if its positive balances were settled immediately in dollars, as if it had to grant credits in units of account to be liquidated in dollars by degrees?

There can be no doubt that if the country with a favourable balance had to grant credits to the debtor countries through a compensation centre and wait a reasonable time for settlement, the incentive to liberalize its import trade would be greater.

4. Possible accession of multilateral countries to membership of the centre

The point now to be discussed is whether this system would prove acceptable to the multilateral-account countries. Among these are some which generally have debit balances with the rest of Latin America, or which achieve relative trade equilibrium through time. For these, accession to a system of multilateral credits might prove advantageous. But there are other multilateral-account countries with large and persistent credit balances, which are settled immediately in dollars. The countries concerned are those exporting products that have a ready sale on the world market, especially petroleum. Obviously, such countries display no interest in granting more or less ample credits in respect of their surpluses, since this would be prejudicial to their present great liquidity. Moreover, it is understandable that they should be reluctant to commit themselves to balance their exports to other Latin American countries with imports of the latters' products, since they can use their present export earnings in dollars to make purchases anywhere in the world. Possibly, however, such surpluses might be excluded from the credit system, with a stipulation that only a proportion of the exports concerned should be computed within the credit régime, and that the remainder should continue to be covered in dollars.

The objection might be raised that this would be a purely formal solution, since it would represent no essential change in the existing state of affairs. And this is indeed the case, from the static point of view. The question here, however, is not the maintenance of the *status quo,* but the encouragement of the growth of trade by the addition of new goods—especially industrial products—to traditional trade. From this other standpoint, a satisfactory credit régime would be of great help in ensuring that the increase in exports of these new items, as well as in the proportion of current exports incorporated into the system, were accompanied by the correlative development of imports from the other Latin American countries.

Thus, the problem must be approached from the dynamic point of view. A glance towards the future—possibly the immediate future—will show how the industrialization of many of the multilateral-account countries will gradually call for the expansion of trade beyond the narrow bounds set by each country's individual market. And it would be a very sound and elementary piece of foresight to enable these countries to join a common payments system which would encourage reciprocal trade from the outset.

A proportion of their exports would be excluded from the payments and credits system. The solution of this aspect of the problem must also be viewed in long-term perspective. Goods which today have a ready sale on the world market may not continue to do so in any great measure in the future; and the obtaining of Latin American preferential treatment for such items might well induce the countries concerned to increase the proportion incorporated into the payments and credits system until it reached 100 per cent.

This circumstantial solution of the export problem would be preferable to the possibility of some countries' remaining outside a compensation system which they might perhaps join in the future. Multilateralism does not in fact imply multilateral compensations only, but also a point of fundamental importance, i.e., equality of treatment in each country for imports from the other member countries, by virtue of the most-favoured-nation principle. As has already been mentioned, one of the most serious drawbacks of the bilateral system is that the need to preserve the balance of one country's account with another has led to discrimination against imports from or exports to other Latin American countries.

Membership of all countries would provide an opportunity for this policy of equal treatment to be applied to all from the outset. "From the outset", since if, for the reasons given above, only those exports which were compensable with imports were incorporated into the system, some inequitable situations might be left to await gradual improvement as imports expanded. The advantage would lie in the establishment of a principle whose application would be subject to the fulfilment of certain objective conditions, and not to future decisions.

It is no use trying to disguise the fact that the sudden application of such a principle might give rise to difficult situations. Fortunately, some sort of interim criterion is also conceivable in this connexion. The primary objective of this whole policy is to increase the scope and range of inter-Latin American trade and to avoid causing abrupt distortions of the trade already existing. In that of the countries maintaining bilateral accounts there are important items which could easily be obtained from competing multilateral-account countries, but which have been virtually excluded owing to the system of bilateral accounts in force. The principle of equality once recognized, an essential requisite would seem to be its application by gradual degrees, in order not to distort existing trade.

5. INTERDEPENDENCE OF MULTILATERAL PAYMENTS AND LIBERALIZATION POLICY

As was pointed out in the appropriate context,[28] the purpose underlying the conception of a compensation centre was twofold, comprising (*a*) the creation of conditions which would favour the growth of trade between multilateral- and bilateral-account countries without obliging the former to adopt bilateral practices; and (*b*) the simultaneous provision of a means whereby the bilateral-account countries could slowly but surely come to participate in the multilateral system. Nevertheless, the setting up of a centre would solve only one aspect of the trade problem; the other concerns the initiation of trade liberalization policy. The greater the progress made in the application of such liberalization measures, the more substantial would be the possibilities for multilateral compensation within the sphere of inter-Latin American trade. In turn, it hardly seems likely that such progress could be made unless a system of multilateral payments and ample credits were organized, since there would be reluctance to liberalize trade, especially in the bilateral-account countries, if the resulting expansion of imports gave rise to the need for considerable disbursements in dollars. Hence the close interdependence between the operation of the payments system and that of the common market.

6. THE FLEXIBLE EXCHANGE RATE AND INTER-LATIN AMERICAN TRADE

But would there really be grounds for establishing a multilateral payments system rather than forging straight ahead to the elimination of bilateralism? Certain recent events might cast some doubt on this issue. In those Latin American countries where exchange control systems exist, there is a manifest trend towards abolishing them and ensuring the balance of foreign exchange supply and demand by means of a flexible exchange rate; and this might in fact suggest that the anxiety to avoid the extensive use of dollars in inter-Latin American trade by virtue of a payments union is to a large extent no longer justified.

The pressure on demand for foreign exchange exerted by a possible intra-regional trade disequilibrium would find its own remedy in the shifting of the exchange rate, which would ultimately balance this increased aggregate demand with the supply of exchange.

The primary object of a flexible exchange rate is to ensure parity between the degrees of internal and external inflation, thus remedying or preventing a repetition of those over-valuation phenomena which have proved so harmful in the countries where they have occurred. However, the flexible exchange rate is not an end in itself, but one of the means that may be adopted, in conjunction with other measures aimed at internal equilibrium, to attain monetary stability.

Monetary stability, although it is a condition favourable to economic development, is not enough. If a country confines itself to following a stabilization policy and does not introduce structural reforms in its economy, the rate of its economic growth cannot exceed the rate of increase of its exports. What is more, the former will actually tend to fall below the latter rate, since demand for imports is prone to increase more intensively than exports.

Consequently, for a policy of monetary stability to be compatible with a growth more intensive than that deriving from exports, a country must pursue a satisfactory import substitution policy. It is common knowledge that such a policy does not consist in reducing purchases abroad till they fall below the level of the capacity to import, but in changing their composition, that is, satisfying demand for part of them with domestic production, in order that orders may be effected on a larger scale without the capacity to import's being exceeded.

It has been explained how this policy of substitution of domestic production for imports from the rest of the world might encourage inter-Latin American trade within a preferential framework.[29] A country would no longer need, as at present, to produce at home everything

[28] See sub-section 3, above.

[29] See section I, 5.

that it ceased to import, but could purchase the goods concerned from its fellow Latin American countries, exporting other items which the latter in their turn would cease to import from the rest of the world.

It was also shown that an essential requisite for the satisfactory operation of the common market was reciprocity in the expansion of inter-Latin American trade thus stimulated by the new pattern of import substitution policy.[30] If reciprocity were lacking, and a country failed to export enough goods to other Latin American countries to cover its imports from them, it would have to make payment in dollars. The additional demand thus created would of course force up the rate of exchange, and aggregate demand would be balanced with supply. As supply, owing to the recognized inelasticity of exports, does not increase rapidly and immediately, the previous demand for imports would have to be restricted, as would the additional demand for foreign exchange, until equilibrium were established.

But careful consideration will show that restriction of previously existing demand would mean reducing imports from the rest of the world in order to leave room for the additional imports from other Latin American countries. In other words, there would be not only a change in the composition of imports from the rest of the world, but a decrease in them offset by the increment in intra-regional imports. And, furthermore, substitution policy would fail to serve its essential purpose, which is that of encouraging domestic production, either in the same way as at present, or by the new method consisting in the expansion of inter-Latin American trade.

This is a problem which the flexible exchange rate cannot solve. The rate in question serves the purpose mentioned above, but not that of developing a steadily increasing flow of reciprocal trade within the common market. To accomplish this, the creditor countries would have to accelerate the rate of reduction and elimination of their duties and restrictions and widen the margin of preferences, so that debtor countries might not be led to modify their own reduction policy or—what would be much more regrettable—to bring back restrictions they had already abolished.

Hence the need for an ample credit system which would allow time for this policy on the part of the creditor countries to produce favourable effects. If, instead, credit balances were to be covered immediately in dollars, a payments problem would be settled, but at the same time the problem of development and trade would remain unsolved.

Again, there is another important aspect of the question which must not be overlooked. The flexible exchange rate has the virtue—sufficient justification in itself—of ensuring correlation between internal and external inflation; but this does not mean that it is the best means of establishing equilibrium in cases like that considered above. In fact, changes in the rate designed to cope with the additional demand created by the expansion of imports from other Latin American countries, besides failing to solve the problem raised, would have inflationary effects which would combine with already existing inflationary pressure, and would therefore jeopardize the achievement of monetary stability.

7. THE PAYMENTS UNION AND INTERNATIONAL CONVERTIBILITY

All these considerations enable the question of the payments union to be viewed in broader perspective. What is involved is not merely a monetary mechanism, but an efficient instrument for the development, within the common market, of an intra-regional trade which in its turn will be the complement of a rational import substitution policy. In other words, reciprocity in inter-Latin American trade is part of a much more far-reaching problem, namely, that of equilibrium between each of the Latin American countries and the rest of the world—a dynamic equilibrium, which must progressively adapt itself to the demands of economic growth. The persistent trend towards disequilibrium which such growth involves, and which has been aggravated by inflation, cannot be corrected by monetary devices or abstract convertibility formulae, but only by those structural changes in the economy in which the progress of industrialization plays a leading role. The farther the scope of the common market is extended, in conformity with the principle of reciprocity, the more efficient and the more economically sound will be the lines on which industrialization progresses. Thus, reciprocity in inter-Latin American trade and equilibrium with the rest of the world are two aspects of the same fundamental problem; and in so far as they are gradually achieved by means of a far-sighted policy continually readjusted to the dynamic demands of the economy, the Latin American countries will have played their appropriate part in the re-establishment of international convertibility, on bases which will not necessarily be the same as in the past.

[30] See again section II, 7.

Part Two

REPORTS OF THE FIRST AND SECOND SESSIONS OF THE WORKING GROUP ON THE LATIN AMERICAN REGIONAL MARKET

I. Bases for the formation of the Latin American regional market

Report of the first session of the Working Group (Santiago, Chile, 3 to 11 February 1958)

BACKGROUND DATA

Pursuant to resolution 116(VII), adopted by the Commission at its seventh session, the secretariat invited a group of prominent Latin Americans to take part in a discussion on the problems of the regional market in Latin America, under the terms of reference specified in the said resolution for the Working Group on this topic.

The Group was composed of the following members:

Mr. José Garrido Torres, President of the National Council of Economy of Brazil

Mr. Rodrigo Gómez, Director-General of the Banco de México, S.A., Mexico

Mr. Flavián Levine, Professor of the University of Chile and Executive Vice-President of the Compañía de Acero del Pacífico (Huachipato)

Mr. Eustaquio Méndez Delfino, President of the Buenos Aires Stock Exchange and former President of the Honorary National Commission of Economy and Finance of Argentina

Mr. Juan Pardo Heeren, former Minister of Finance of Peru

Mr. Galo Plaza, former President of the Republic of Ecuador

Mr. Joaquín Vallejo, former Minister of Development of Colombia

The Group met at the headquarters of the ECLA secretariat from 3 to 11 February 1958. Its members elected Mr. Galo Plaza, Chairman and Mr. Joaquín Vallejo, Rapporteur.

The secretariat of the Group was constituted by the following:

Executive Secretary: Mr. Raúl Prebisch

Deputy Director: Mr. Louis N. Swenson

Secretary of the Commission: Mr. Alfonso Santa Cruz

Secretary of the session: Mr. Esteban Ivovich, Chief, Inter-Latin American Trade Section

Consultants: Mr. Fernando Illanes, Consultant on Trade Policy

Mr. Jorge Ahumada, Chief, Economic Development Division

Mr. Carlos Quintana, Chief, Industrial Development Division

Mr. Nuno de Figueiredo, Co-ordinator of Regional Market Studies

Mr. Santiago Macario, Deputy Chief, Inter-Latin American Trade Section

Bearing in mind the substance of the resolutions discussed in Annex I, the Group based its discussions on the studies and reports transmitted to it by the secretariat and the documents submitted to it in the course of its deliberations, details of which are given in the same annex.

As a result of its discussions, the Group adopted the report which follows, resolving at its final meeting that the secretariat should transmit the said report, with the suggestions and recommendations contained therein and with such comments as the secretariat might deem appropriate, to the Governments members of the Commission. The Group likewise agreed that its conclusions should be disseminated as widely and as quickly as possible.

INTRODUCTION

The social need to develop the Latin American countries makes it a matter of increasing urgency to devise effective ways and means of accelerating the rate of growth of their real *per capita* income. It is now fully recognized that such ways and means must necessarily be based on the technical improvements in agriculture and the progressive industrialization of the countries in question. Modern technology offers an almost unlimited potential for the attainment of these ends, as is testified by the experiments of paramount historical importance which are being carried out before our eyes. Will Latin America be able to take full advantage of this potential? A formidable obstacle stands in the way. Industrialization calls for an extensive market without which the countries of the region will be unable to achieve the high level of productivity characteristic of the great industrial centres. Such a market could be available to Latin America, but it has been broken up into twenty watertight compartments. Now that a common market has been formed in Western Europe, that the Scandinavian peoples are making efforts in the same direction and that the countries of Eastern Europe are apparently engaged in a process of integration, Latin America constitues the only large population group in the world which, in a vast territory endowed with a wealth of natural resources, is wasting for want of economic integration the immense potential represented by modern technology.

In 1955 the population of Latin America numbered some 175 million persons, and it is estimated that it will have increased by a further 100 million by 1975. The share of the active population in this increment should amount to approximately 38 million. If the trends registered in the last twenty years continue, out of this substantial addition to the region's labour force only 5 million will be absorbed by agricultural activities, or fewer still if, as is greatly to be desired, technical progress in agriculture is expedited. Thus about 33 million persons will be left to seek productive employment in other sectors; and of these a considerable proportion will have to be absorbed by the process of industrialization and under conditions of continuous technological progress. There will be a very serious waste of resources if the Latin American countries continue to pursue a policy of industrialization in watertight compartments.

ECLA has viewed this problem in a clear light, and the member Governments agreed in principle upon the need to set up a regional market, first at the initial session of the Trade Committee, held in November 1956, and subsequently, in May 1957, at the seventh session of the Commission in La Paz. Likewise, at the recent inter-American economic conference in Buenos Aires (August 1957), the Governments categorically endorsed the proposal to create a Latin American regional market.[31]

In compliance with the instructions issued to it at the La Paz session, the secretariat has invited the present Working Group to co-operate in the preparatory work for putting this vitally important project into effect. For this purpose the Group has had a series of prior studies at its disposal. The concept of the economic integration of Latin America, which found early expression in ECLA's *Economic Survey of Latin American, 1949,* has been progressively developed in subsequent documents. In this connexion, it should be pointed out that definite ideas on the regional market's structure first appear in the study entitled *Payments and the regional market in inter-Latin American trade.*[32] All this material has been very useful to the Working Group, as have also the additional reports presented by the secretariat before and during the meetings of the Group.

Thus, the concept of the Latin American regional market has long been gradually taking shape, and the Group deems it a privilege to have had the present opportunity of giving it new impetus by formulating what should, in the Group's opinion, constitute the market's essential bases. The establishment of the European common market has rendered the creation of a Latin American regional market a more pressing need; in the first place because it shows how an idea that some years ago might have been considered utopian quickly gains ground when enlightened statesmen give it the support of their prestige and define it with conviction; and, secondly, because the European common market, undeniable as are its advantages of its six member countries and beneficial as its indirect repercussions may prove for Latin America, will produce in addition some adverse effects mainly as a result of the preferential measures introduced in favour of the member's overseas territories. However much concerted action on the part of the Latin American countries may mitigate such effects, it would not be feasible to imagine that they can be entirely averted. Furthermore, the European common market will powerfully stimulate the technological revolution which is already taking place in the agriculture of the countries concerned as well as in their production of synthetic raw materials; and all this is bound to have unfavourable consequences for the producer countries of Latin America.

A negative reaction, however, is not enough. Latin America's positive reaction must be the creation of the regional market. The time is ripe to take this step resolutely and without detriment to the region's advantageous trade relations with the great industrial centres. Latin America will continue to buy from them in so far as they absorb its exports, which the countries of the region will have to promote to the fullest possible extent. But the composition of Latin American imports must be further modified and brought into line with the capacity for external payments. If this process is carried out within the broad framework of the regional market, Latin

[31] [*Note by the secretariat*] Annex II of this report contains the text of the relevant resolutions adopted by ECLA and OAS.

[32] [*Note by the secretariat*] The report in question was published under this title by the secretariat in 1956 and was prepared by the economists Mr. José Garrido Torres (Brazil) and Mr. Eusebio Campos (Argentina) in their capacity as consultants, after they had carried out a survey in various South American countries with the co-operation of the secretariat. The following were among the recommendations with which the report closed:

"It is considered that agreements should be concluded with a view to promoting—by means of collaboration among several countries, and on a basis of financial contributions from both regional and foreign sources—the establishment or development of industries that require substantial capital and wide markets...

"It is felt to be expedient that in the field of trade policy steps should be taken to establish general principles and certain specific procedures conducive to the gradual building up of a regional market on multilateral and competitive bases. This regional market would permit the intensification of those Latin American lines of industrial production in which a reduction in costs and future expansion basically depend upon an increase in consumer capacity.

"At this level, and as a preliminary phase, the drawing up of an industrial map of Latin America is suggested, mainly with a view to the determination of possible and advisable action."

The study referred to was published in *Inter-Latin American trade: current problems* (E/CN.12/423), United Nations Publication, Sales No.: 1957.II.G.5, pp. 93 *et seq.*

American industry will be vigorously spurred on towards new and more efficacious forms of expansion, with favourable consequences for the economic development of the region. In the course of this task of substituting domestic production for imports, the sooner Latin America speeds up its production of capital goods, which at present are imported because their manufacture in watertight compartments is anti-economic, the sooner will the region be able to counter such foreign trade setbacks as may accompany the advantages attendant upon the European common market.

From another point of view, it would be a mistake to consider that the main justification of the common market lies in the incentives it will afford to the production of capital goods and intermediate products that require complex processing. This applies especially to the more advanced of the Latin American countries, where conditions have been becoming increasingly favourable for the establishment of such activities; but the vast possibilities for expansion, consolidation and specialization among existing consumer goods industries, as well as those others which will undoubtedly come into being by virtue of the regional market, must not be overlooked.

The situation of the less advanced countries is also of vital importance. The system of watertight compartments has virtually cut them off from the favourable effects of industrialization in the more highly developed countries. The significance of this problem is obvious, and the regional market must provide the indispensable conditions for its solution. The less developed countries of the region will have to find the decisive stimulus to their own industrialization in rising levels of consumption in those that have reached a higher stage of development. This calls for special treatment. If the treatment accorded in the regional market were to be exactly the same for countries at different stages of the industrialization process, the inequalities would tend to be perpetuated. To reduce and finally eliminate them, special incentives to the industrial development of the less advanced countries will have to be provided, for the mutual benefit of both groups.

Bearing in mind these considerations and others which will be discussed later, and in conformity with its terms of reference, the Group presents the following bases on which the Latin American regional market may be established. In formulating them, the Group has been guided first and foremost by the idea that such bases will be effective only in so far as they offer ample opportunities to private enterprise and its achievements. The Governments will plan the structure of the regional market, but it will be for private enterprise to give it life; and in the pursuit of this aim, the countries concerned will have to take special care that their legitimate efforts towards industrialization do not deprive agriculture and the infrastructure of essential resources, thus jeopardizing the balanced development of their economy and, in the final issue, weakening their rate of growth.

On these foundations it will be possible to build up the specific projects which the Governments members of the Commission have requested this Working Group to recommend. To this end a series of analyses will have to be carried out on the lines suggested to the secretariat in the third part of the present document, in which comments are presented concerning the bases enumerated below.

ENUMERATION OF THE BASES

I. *Universality of membership in the regional market*

Membership in the regional market must be open to all the Latin American countries, for which reason it is essential that conditions acceptable to all of them be established from the outset.

The universal nature of the regional market agreement does not, however, imply that countries closely linked by geographical proximity or common economic interests shall not be empowered to enter into negotiations among themselves. But it is essential that these negotiations be effected within the framework of a general agreement, and along such lines that the reciprocal concessions involved are not exclusive and are automatically extended to other members countries, or to such countries as may become members in the future if all do not accede to the initial agreement.

II. *Range of the regional market in respect of commodities*

The ultimate aim of the regional market must be the inclusion of all goods produced within its area. This concept does not mean, however, that the regional market must become effective immediately for all such goods. It only implies that the agreement will have to establish procedures and time-limits for the progressive abolition of those customs duties and restrictions which nowadays hamper or prevent inter-Latin American trade. In other words, the agreement must be immediate but its implementation gradual.

Once this principle is established, various ways of putting it into practice are conceivable, which must be carefully examined before final recommendations are made.

III. *Development of the less advanced countries*

The less advanced countries must be accorded special treatment to enable them, through progressive industrialization and the over-all strengthening of their economies, to share fully in the benefits of the regional market.

With this end in view, their import duties and restrictions must be reduced more slowly than in the more advanced countries, in accordance with formulae to be studied; and such formulae must further establish facilities for exports from the countries in question, and especially for goods produced by their new industries and other activities, so as to ensure equitable trade reciprocity. In addition, other measures must be devised, especially of a financial nature, conducive to the more rapid development of the less advanced countries.

IV. *The tariff system* vis-à-vis *the rest of the world*

One implication of the regional market is that it will be desirable eventually to establish a single customs tariff *vis-à-vis* the rest of the world. But in some countries the tariff has been deprived of its protectionist role, and has been superseded by restrictive measures of various kinds. Until these are replaced by a new tariff, an interim system will have to be established to ensure the progressive abolition of such restrictions in the countries in question to an extent equivalent to the tariff reductions effected by other member countries.

V. *Specialization in industries and other activities*

The specialization in industries and other activities which is one of the objectives of the regional market must be the outcome of the free interplay of economic forces within the over-all conditions established by the agreement, and without precluding the pursuance of an investment policy calculated to further as effectively as possible the aims of the said agreement.

It is inconsistent with this principle to accord specific countries the exclusive right to install certain industries or activities, or to impose restrictions on free competition, except as regards the special features of the integration programme of the Central American countries, which in this context must be considered as a single unit, if such is the form of membership they desire.

VI. *The payments system*

In the interest of greater efficiency, the regional market must have a special system of multilateral payments conducive to maximum inter-Latin American trade reciprocity, and not detrimental to the possible participation of Latin America in the re-establishment of a more general multilateralism. It is essential that, under the system established, the member countries be protected against all exchange risks.

VII. *Temporary import restrictions*

Member countries must have the right to impose temporary import restrictions, in accordance with regulations to be laid down in the agreement, and provided that basic remedial measures of monetary, fiscal and economic policy are also adopted, when such a step is rendered necessary by:

(*a*) The magnitude and persistence of the disequilibrium in their balance of payments with the other member countries; and

(*b*) The need to facilitate reabsorption of manpower, in the course of the readjustments consequent upon the changing industrial structure.

VIII. *Safeguard for agriculture*

Member countries must have the right to restrict imports of agricultural commodities, limiting them to given proportions of the increment in consumption, should this be indispensable for the normal maintenance of agricultural activities.

IX. *Rules of competition*

To promote the smooth functioning of the regional market, steps must be taken to prevent the export trade of a member country from prejudicing, by means of unfair competitive practices, the activities of other member countries, either through competitive currency depreciation or by any other method.

Member countries must also refrain from discriminatory practices, so that export prices may be the same for any given commodity, irrespective of the market of destination.

X. *Credit and technical assistance*

The regional market must be provided with an effective system of credit and technical assistance, both in order to stimulate intra-regional exports and with a view to furthering the installation and development of the industries concerned.

XI. *The advisory body*

The problems that the functioning of the regional market will involve call for the creation of an advisory body constituted by the member Governments, and the establishment of a system of arbitration.

XII. *Role of private enterprise*

For the formation of the regional market the agreement of the respective Governments is required. But the making of such a market a going concern will depend to a large extent on private enterprise, on its understanding of the problem and on its ability to turn to account the immense advantages offered by the regional market for industrialization, for the introduction of more advanced agricultural techniques and for over-all economic development.

It is, therefore, deemed highly desirable to enlist the active co-operation of the organizations representing private enterprise, in both the national and the international field, for the study and discussion of these problems.

COMMENTS ON THE BASES AND RECOMMENDATIONS

Bases I and II. *Universality of membership in the regional market*

The greater the number of countries and the wider the range of commodities included in the regional market, the greater will be the possibilities of reciprocal trade and the more flexible the market's operations, inasmuch as the liquidation of balances among member countries will be facilitated.

It therefore appears desirable that the agreement should be open for accession to all the Latin American countries and, at the same time, that formulae should be evolved flexible enough to allow countries in close geographical proximity or with specific interest in common to make mutual concessions. While such concessions may originally be designed to promote the mutual interests of the countries concerned, they should be extended to other member countries without any intent of exclusiveness.

As regards the commodities, a careful examination will have to be made of ways and means of gradually and progressively reducing duties and restrictions. Because of their complementarity or the fact that they have not yet been produced or are produced in only one country, in the case of certain commodities—for example, some traditional items of trade and also, to a large extent, capital goods and durable consumer goods, as well as some important intermediate products—the reduction of duties and restrictions could be embarked upon without any limitations. At the other extreme are the industries producing goods for current consumption. Here, reduction must be gradual and progressive in order to allow for adjustments and increased specialization in the various sectors and to avoid the serious maladjustments which would otherwise occur.

In considering this aspect of the regional market, the secretariat should take into account various methods of reduction, whether they refer to all commodities, to groups of similar or related commodities or to individual trade items.

Basis III. *Development of the less advanced countries*

It is essential for the succes of the regional market that the less advanced countries should find in it incentives, lacking at present, for vigorous industrialization. However, if such countries acceded to the agreement on the same terms as the more advanced countries, this objective would not be achieved because of the greater industrial productivity of the latter. To prevent this, various procedures must be studied. For example, it might be possible to maintain for a judicious period the reasonable amount of protection required by the industries of the less advanced countries which are working for their own internal market, while the duties and restrictions for the same and other industries in the more advanced countries are gradually eliminated. Another possibility would be to promote the establishment of export industries in the less advanced countries and to grant the necessary facilities for importing the products of these industries to the more advanced countries. All these alternatives must be considered.

At the same time, an analysis will have to be made of the manner in which credit facilities could be granted to these countries to help them finance their export industries. Furthermore, it is to be hoped that foreign capital might well find in the countries in question the incentives for industrial investment which are lacking today, since such investment would have at its disposal an extensive regional market instead of the narrow range of markets at present available.

This does not mean that the more advanced countries should make a sacrifice in favour of the others. Quite clearly, the interests involved are reciprocal. Under the preferential trade system which the regional market implies, the exports made by the less developed to the more developed countries will give the former a purchasing power that will largely be used to buy the manufactured products of the latter, particularly when the countries concerned succeed in establishing a multilateral system of payments which will encourage the utilization of credit balances within the regional market itself and which will reduce to a minimum the outflow of dollars or other freely convertible currencies to the rest of the world.

Without these special arrangements, the more advanced countries would have great difficulty in selling their capital goods and other goods whose costs are higher than those in other parts of the world. Certainly, the enlargement of the market and the consequent increase in productivity will gradually bring costs closer to world levels. In the meanwhile, it would be logical to expect that the less developed countries will be unwilling to grant preferences in respect of such goods if they have to spend their hard currencies in order to purchase them, but if they are able to pay for them with additional exports, especially of manufactured goods, a wide field of mutual interest will be opened for both groups of countries.

Basis IV. *The tariff system* vis-à-vis *the rest of the world*

There are two ways of tackling the problem of a preferential policy: that of the free trade zone and that of adopting a single customs tariff *vis-à-vis* the rest of the world. The first method would have the advantage of not requiring any readjustment of existing tariffs *vis-à-vis* third countries: each country would maintain or establish *vis-à-vis* the rest of the world the duties which it desired—subject to the limitations imposed by the treaties in force—and would undertake only to grant those progressive reductions which the agreement required for the other countries operating within the same system. However, in certain circumstances, the lack of a common tariff for certain commodities imported from third countries would have serious disadvantages.

On the other hand, it is no easy task to work out a common tariff. In particular, there are countries where the tariff has disappeared as the result of inflation and has been replaced by restrictions of a different kind. It might take time to re-establish the tariff, but there is no need to wait for this to happen before the common market agreement is concluded. Intermediate stages may be envisaged at once. The progressive reduction of duties and restrictions could be started within a free trade zone, while the decisive steps were bing taken for the establishment of a common tariff. It would be advisable for the secretriat to analyse the various alternatives in this field, including that for which provision is made in article XXV of GATT, and, at the same time, to devise suitable ways and means of gauging the magnitude of both the restrictions and the customs duties introduced for the purposes of reductions contemplated in this report.

Basis V. *Specialization in industries and other activities*

Many consumer goods industries in the Latin American countries may possibly have attained an apparently satisfactory size in comparison with their counterparts in the advanced industrial centres. However, a close examination will reveal that the smallness of the market in Latin America compels factories to produce an excessive variety of articles, while factories in the more advanced centres have reached a high degree of specialization. The regional market will stimulate such specialization in Latin America. The time required for the reduction of duties and restrictions will allow the gradual introduction of the necessary readjustments and may possibly encourage the merger of industrial interests between firms of different countries or the conclusion of mutual agreements to attain the necessary specialization in this and other cases.

All this should come about as the result of the free interplay of interests, which is not incompatible with effective guidance through financial agencies. But in no case should it lead to exclusive arrangements which prevent competition or the entry of new enterprises.

Basis VI. *The payments system*

In the abstract, a regional market without a special payments system is conceivable ; but, in practice, the full potential of the market will not be realized without it. A system in which any credit balance in favour of one country might give rise to an immediate outflow of foreign exchange to the rest of the world would mean a substantial weakening of the regional market. It is therefore necessary to create incentives to ensure that such balances are used within the market itself.

For this purpose, it will be necessary to examine the possibility of organizing a credit system at the same time as the multilateral payments system.

The Group noted with satisfaction that the meeting of representatives of some of the Central Banks in Montevideo, convened by ECLA, recommended parity for units of account in bilateral agreements and laid the foundations for the voluntary transfer of balances. It is to be hoped that the second meeting, to which all the Latin American Central Banks should be invited, will work out wider formulae for multilateral compensation and that an immediate programme for the elimination of certain restrictions which interfere with trade will open the way for the automatic transferability of intra-regional balances.

Basis VII. *Temporary import restrictions*

The incentive to use balances within the regional market itself referred to in the preceding section (Basis VI) will be a powerful stabilizing factor. But it is possible that certain transitory factors or inflationary pressure may produce disequilibria which, because of their nature and magnitude, cannot be remedied by additional credits. Such a situation may compel the debtor countries to impose restrictions on imports from the regional market. However, it is essential that such restrictions should conform to certain norms and that they should be applied for a limited time, since other measures must be adopted to attack the disequilibrium at its source. In this respect, the bodies to be established under the agreement could provide useful advice and guidance.

Consideration must also be given to cases in which the disequilibrium is of a structural character, or, in other words, when a country has not succeeded in attaining a rate of economic development similar to that of others without a persistent trend towards external disequilibrium. In this instance, firm action must be taken to stimulate exports and replace imports by domestic production. Monetary readjustment in accordance with the provisions and practices of the International Monetary Fund is one possible method. But some thought should be given to protective measures of limited scope which could be introduced only after the views of the bodies concerned had been heard. These are delicate matters which require careful consideration.

There is another type of disequilibrium which will have to be taken into account. The regional market will tend to accelerate the rate of growth of the Latin American countries. This fact and the more or less prolonged period of time which will have to be allowed for the reduction of duties and restrictions will facilitate the readjustment of the economic activities of a country when it is faced with competition from other member countries.

Cases may arise, however, where, because of the nature of an activity or its geographical position, it is not easy to transfer labour no longer required by that activity to others in process of development. In these cases, it is logical that a country should be able to impose temporary restrictions on imports which give rise to such difficulties.

Basis VIII. *Safeguards for agriculture*

From the point of view of the foregoing comments agriculture is in a special position. In certain cases, safeguards have been necessary to protect it against competition from other Latin American countries. This is a fact towards which no hard-and-fast attitude can be adopted. On the one hand the introduction of advanced techniques in agriculture in the countries concerned may enable them to face such competition on favourable terms. On the other hand it must not be forgotten that with the passage of time a marked increase in consumption may require that those activities now enjoying protection be maintained and stimulated, because the surplus of the exporting countries may gradually be reduced through the growth of their own consumption.

In the light of these possible changes it is necessary to proceed with caution and to accord special treatment to agricultural activities, without losing sight of the need to draw up programmes for the gradual replacement of certain costly lines of production by others in which productivity is higher, both for the benefit of the consumer and in order to promote the more efficient utilization of available productive resources.

Basis IX. *Rules of competition*

The essence of a regional market lies in its competitive character. But the success of such competition must be the result of better productive ability and not of arbitrary factors. These factors may be of different kinds. If the external depreciation of a country's currency is continually higher than internal depreciation, export prices might fall, to the detriment of other countries competing on the market.

In other cases unfair competition might be rather the result of deliberate procedures, taking the form of apparent or concealed subsidies. These practices are not compatible with the regional market.

Basis X. *Credit and technical assistance*

In this field also it is necessary to proceed with caution, for, while the accelerated development brought about by the regional market will give rise to greater need for investment resources, there is the risk of embarking on over-ambitious projects which, however well conceived, may prove difficult to carry out in practice. A beginning should be made with modest undertakings which could extend their field of action as they proved to be reliable and efficient.

The credit requirements inherent in the regional market are of two types: first, the financing of exports and, second, the financing of industries which produce these exports. So far as the former is concerned, a system of medium-term credits designed specifically to encourage exports of capital goods will have to be organized. Consideration should be given to the possibility of entrusting these credit operations to the same body which is responsible for the system of multilateral payments, without precluding the appropriate use of existing financial organizations, both domestic and foreign.

As regards the financing of industries, particularly those producing for exports, the enlargement of the market will undoubtedly provide private domestic and foreign capital with more powerful incentives than at present. These incentives will encourage the pooling of capital from different countries for the development of industries which serve the regional market, and other forms of financial co-operation. Yet national resources will clearly be insufficient and recourse will have to be had to international credit resources. It will therefore be necessary to consider the possibility of establishing a special development agency to carry out these financing operations, which should be complemented by measures of technical assistance in regard to which international organizations could provide very valuable support.

The secretariat should study the possible repercussions on the regional market of the different kinds of treatment now accorded by the Latin American countries to investors.

Basis XI. *The advisory body*

The Group does not consider that the Latin American countries are yet ready to establish at the outset an executive authority for the regional market although this might constitute an objective for the future. Accordingly, it would prefer an organization of an advisory type but whose influence might in time become decisive if its efficiency and impartiality conferred upon it an unquestionable moral authority. This report has dealt with various circumstances in which a country has to take emergency measures which run counter to the aims of the agreement and which might cause harm to third countries. The advisory body would intervene in all such cases. What is more, its opinion should first be sought so that the country which considers itself prejudiced by measures taken by other countries may apply for a ruling. For this purpose, it would suffice to establish a procedure for appointing arbitrators in the specific cases which may arise.

Besides these functions, the advisory body should be responsible for following the development of the regional market, giving guidance to the organization previously referred to and fostering increasing co-ordination between the economic policies of the various countries, in order to ensure the efficient operation of the market itself.

Basis XII. *Role of private enterprise*

A perusal of the text in which the basis is described will suffice to show the desirability of requesting the secretariat that, in carrying out the studies and research entrusted to it in connexion with the regional market, it should explore the views of the private sector on this problem and seek the necessary ways and means of obtaining its active co-operation, both in the national and in the international field.

OTHER RECOMMENDATIONS TO THE SECRETARIAT

The trade agreements in force between Latin American countries on the one hand and the rest of the world on the other are usually based on the unconditional application of the most-favoured-nation clause. With few exceptions, these agreements contain no provisions excluding from the application of this clause the special treatment which the Latin American countries would have to accord one another in order to establish the regional market.

Consequently, whatever the juridical procedure selected in due course for the establishment of the market—customs union, free-trade zone or any other—before it can be put into effect, changes in a certain number of existing agreements will have to be negotiated with countries in other parts of the world.

To facilitate this process, it would be advisable henceforward for the Latin American countries, while continuing to honour their existing trade treaties, to endeavour to introduce, whenever they sign new agreements with countries in other regions or renew or modify instruments currently in force, a proviso couched in broad terms in favour of the regional market and of inter-Latin American trade in general.

The Group therefore recommends to the secretariat that it bring these opinions to the attention of Governments, laying stress on the advantages for the re-negotiation of existing agreements with third countries, and for the incorporation therein of the proviso referred to, which would be afforded by the establishment of a regular system of consultation utilizing the Trade Committee mechanism. Such a system would permit to co-ordination of measures of trade policy, and, moreover, would make it easier to implement the suggestions put forward at a similar level in ECLA resolution 121 (VII), which recommends to the Latin American countries that they consider the desirability of carrying out consultations, especially on the possible repercussions of the European common market.

Similarly, it would be advisable for the secretariat to call the attention of Governments to the fact that certain situations arising out of the Rome Treaty seem to offer an opportunity of including reservations or provisos that may facilitate the establishment of the regional market.

In this context, the secretariat might usefully carry out a study of the contractual aspects of the establishment of the regional market, first collecting data and opinions from the appropriate Latin American governmental organizations and from experts in this field.

In addition, an examination should be made of how far the concessions granted to member countries of the regional market might be prejudicial to the interests of non-member countries, especially in cases where certain special arrangements were in force between the latter and some of the members of the market.

Another of the Group's recommendations to the secretariat relates to maritime transport. The Group has taken note of the studies already carried out in this field and of the secretariat's instructions to pursue them. It would be highly desirable for them to be completed as soon as possible, as the shortcomings of the transport system constitute a serious obstacle to trade.

In this and other aspects of the work of compiling the information and background data needed for the preparation of the regional market project, the secretariat will have to maintain close and constant contact with the Latin American Governments. To this end the secretariat should, in the Group's opinion, recommend to the Governments that each country set up a body responsible for dealing with all matters relating to the study of regional market problems.

Similarly, it would be well for the secretariat to consider the most effective means whereby, through the expansion and diversification of trade, the present structural disequilibria in the latter could be remedied, in conformity with resolution 119 (VII).

Again, in view of the interest aroused by the proposed Latin American regional market and its potentialities, the Group feels that it would be useful if data on new industrial projects in the various countries were available at regular intervals. It consequently suggests that the secretariat consult the Governments as to their views on this idea and the possibilities of putting it into practice.

This seems to the Group to bring to a close the first phase of the important task entrusted to it by the United Nations. According to the instructions it has received from the Governments members of ECLA, its ultimate objective is to prepare a project for the structure of the regional market in Latin America. At this first session it has had to confine itself to establishing certain essential bases, which are, however, far from constituting even a preliminary project; this would be premature from every point of view. The bases in question are merely points of departure, so that the new studies which the secretariat is asked to undertake, in addition to those recommended to it by the Governments, may provide the data required for the drawing-up of specific and final proposals.

It would be impossible to conclude this report without express mention of the fact that all the members of the Group, who have taken part in these discussions in their own personal capacity, wish to place on record their satisfaction at the high quality of the technical studies prepared by the secretariat and its collaborators ever since the idea that ECLA should organize the preparatory work for the creation of a regional market was first broached. The Group recognizes the great progress made by the Central Banks Working Group, which established the bases for an orderly, safe and practical payments system, as well as the Trade Committee's invaluable more general contributions to the rapid attainment of the proposed objective. It therefore wishes to thank and congratulate both these bodies, as well as the permanent staff of the ECLA secretariat, under the guidance of its Executive Secretary, Mr. Raúl Prebisch, and the consultants who were invited to collaborate with the secretariat prior to and during the Group's preliminary work. The members of the Group also wish to express their gratitude to the Chilean Government and the various national authorities for their generous hospitality, which provided a propitious and pleasant setting for the work of the Group, and faithfully reflected Chile's traditions of courtesy.

Annex I

RESOLUTIONS ADOPTED PRIOR TO THE SESSION AND LIST OF BACKGROUND DOCUMENTS

1. In the course of its work, the Group took into account the following points connected with the terms of reference assigned to it by the Trade Committee.

(*a*) Under the terms of resolution 101 (VI), adopted on 15 September 1955, the Economic Commission for Latin

America, after considering the secretariat document entitled *Study of Inter-Latin American Trade* (E/CN.12/369), resolved to set up a Trade Committee, as a permanent organ of the Commission.

The purpose of the Committee is to intensify inter-Latin American trade without losing sight of "the fundamental necessity of increasing over-all world trade". In the resolution mentioned, the Commission recommended to the Committee that it should prepare specific proposals with a view to solving the practical problems of inter-Latin American trade as well as bases to facilitate intra-regional trade negotiations, in keeping with existing international commitments.

(*b*) At its first session (Santiago, November 1956) the Trade Committee adopted the following resolutions with a view to the gradual accomplishment of its tasks:

Resolution 1 (I) on the gradual introduction of a multilateral payments system. A permanent Working Group was formed by the Central Banks of some of the Latin American clearing-accounts countries in order to study the establishment of the system in question. For the intervening period of transition the resolution adopts certain principles—in particular that of parity for units of account and convertible currencies for the same operations—designed to co-ordinate existing bilateral payments mechanisms [a] and to pave the way for the multilateral transferability of balances.

Resolution 2 (I) relating to the problems arising from the parallelism and idle capacity existing in certain Latin American industries, and partly attributable to the small size of the individual countries' markets. The resolution recommended to the secretariat that, in order to determine what measures were advisable to remedy the situation, it should make an inventory of existing industries in Latin America, and that it should report to the Trade Committee on the progress of the studies concerned.

Resolution 3 (I) on procedures for the creation of a regional market. As the future industrial development of Latin America requires markets larger than those at present in existence, this resolution set up a Group of Experts to complete the studies carried out by the secretariat to date and also to undertake the following tasks:

(i) To define the characteristics of the regional market, bearing in mind the differing degrees to which the countries of the region are industrialized:

(ii) To study its possibilities and projections; and

(iii) To submit recommendations on basic principles and procedures for its establishment, within the terms of reference of the Trade Committee as defined in resolution 101 (VI).

Resolution 4 (I) recommending to Governments the adoption of a policy for the gradual liberalization—either unilaterally or through bilateral or multilateral agreements—of intra-regional trade in natural products, raw material and foodstuffs.[b]

(*c*) At the Commission's seventh session (La Paz, Bolivia, 15-29 May 1957), member Governments recommended that the secretariat should "call the attention of the Group of Experts to the specific situation of those Latin American countries which are landlocked or whose economic structure is dependent on a single branch of production or lacks diversification, so that the Group may consider, in planning the structure of the regional market, the possibilities for the absorption of the exportable commodities of such countries and for facilitating their industrial development within such a market" (resolution 116 (VII)).[c] At the same time the Group was requested to consider the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries and to study the problems facing the development of a regional market, with due regard to each and every Latin American country and to its situation and possibilities.

(*d*) At the Economic Conference of the Organization of American States (Buenos Aires, Argentina, 15 August to 4 September 1957) the Governments of this hemisphere adopted a resolution [d] in which, after referring to the studies and projects already undertaken by the Economic Commission for Latin America, its Trade Committee and the Central Banks Working Group on behalf of the expansion of trade within the area, they unanimously proclaimed "the desirability of gradually and progressively establishing a Latin American regional market on multilateral and competitive bases".

(*e*) Furthermore, in resolution 3 (I) of the Trade Committee, to which reference has already been made, it was stated that the conclusions reached by the Group of Experts of the Regional Market, together with the comments made by the ECLA secretariat and those received from other international organizations, would be submitted directly to the member Governments for their consideration and comments. When this procedure had been complied with the secretariat should in due course disseminate as widely as possible the documents transmitted to the member Governments. In addition, the study prepared by the Group of Experts, or a progress report, together with the comments of the secretariat and the Governments, would be presented to the next session of the Trade Committee.

2. Besides taking into consideration the foregoing resolutions, the Group utilized as background documents in the course of its proceedings the studies prepared by the ECLA secretariat, and in some cases by its consultants, in connexion with inter-Latin American trade and the regional market, together with those of other organizations, as listed below:

A. *Background documents*

(1) *Study of Inter-Latin American Trade* (E/CN.12/369/Rev.1), United Nations publication, Sales No.: 1956.II.G.3.

(2) *Inter-Latin American trade: current problems* (E/CN.12/423), United Nations publication, Sales No.: 1957.II.G.5; with special reference to the account of proceedings of the first session of the Trade Committee (pages 7 to 14), and to part II, section 3, "Payments and the regional market in inter-Latin American trade" (pages 93 to 105).

(3) Resolutions 116 (VII) of the Economic Commission for Latin America, given in *Annual Report (15 May 1956-29 May 1957)* (E/CN.12/451), pages 106 to 108 and 113 to 115.

(4) ECLA activities relating to payments and the regional market in Latin America (E/CN.12/483).

(5) Final Act of the Economic Conference of the Organization of American States (Buenos Aires, Republic of Argentina,

[a] The Central Banks Working Group held its first session in Montevideo from 29 April to 10 May 1957. The result of its work was the drafting of a standard payments agreement and also an inter-bank agreement—now in force—on the compilation and exchange of comparable data relating to inter-Latin American clearing accounts. The Group resolved to hold a second session during 1958.

[b] See the text of resolutions 1 (I) to 4 (I) of the Trade Committee in *Inter-Latin American trade: Current problems, op. cit.*, pages 14 to 17.

[c] See complete text in annex II of the present report.

[d] See complete text in annex II of the present report.

15 August-4 September 1957), with special reference to resolution XL, " Recommendation on a Latin American regional market " (pages 86-87).

(6) Liberalización del Comercio Interlatinoamericano (document 3.1957 of the Organization of American States).

(7) Outline of the problems of the regional market (E/CN.12/C.1/WG.2/1).

(8) Some problems of the Latin American regional market (E/CN.12/C.1/WG.2/2).

(9) Pierre Uri, Suggestions concerning the Latin American regional market (E/CN.12/C.1/WG.2/3).

(10) Main background data relating to the Working Group (E/CN.12/C.1/WG.2/4).

(11) Hollis B. Chenery, Alternative approaches to economic integration in Latin America (E/CN.12/C.1/WG.2/5).

(12) El movimiento de integración económica centroamericana (Information document).

B. *Documents distributed during the session*

(1) Exposición del Dr. Raúl Prebisch, Director Principal a cargo de la Secretaría Ejecutiva de la CEPAL en la sesión inaugural, el día 3 de febrero de 1958 (Conference Room Paper No. 1).

(2) Sugestiones del Dr. José Garrido Torres en cuanto al método de trabajo del Grupo (Conference Room Paper No. 2).

(3) Notas del Dr. José Garrido Torres sobre los conceptos generales y procedimientos a considerar a la luz de las cuestiones planteadas en los capítulos I a V del documento E/CN.12/C.1/WG.2/1 (Conference Room Paper No. 3).

(4) Notas del Dr. José Garrido Torres sobre el problema del financiamiento del comercio interlatinoamericano y sobre la eventual necesidad de un organismo operativo para el sistema de pagos multilaterales (Conference Room Paper No. 4).

(5) Compilación de informaciones sobre política comercial (Conference Room Paper No. 5).

Annex II

Resolutions on the regional market adopted by the Economic Commission for Latin America and by the Economic Conference of the Organization of American States

A

The Economic Commission for Latin America,

Considering :

(*a*) That the Trade Committee, established under the terms of resolution 101 (VI) adopted at the sixth session of the Commission, held its first session at Santiago, Chile, in November 1956, and has presented a report on the result of its work (E/CN.12/423) to the current session of the Commission ;

(*b*) That it is desirable to complete the studies specifically relating to the creation of a regional market in Latin America ;

(*c*) That the trends indicated in document E/CN.12/C.1/4, presented at the first session of the Trade Committee, have become more clearly marked since that date, a development which might have unfavourable repercussions on Latin America's extra-regional and intra-regional trade ;

(*d*) That resolutions 46 (V), 69 (V) and 101 (VI) recommended to the secretariat and to the Trade Committee that they devote special attention to the trade of those Latin American countries which are landlocked, or whose economic structure is based on a single branch of production or is little diversified ;

(*e*) That greater mobility of capital among the Latin American countries would be advantageous ;

(*f*) That it is desirable for the regional market to be gradually extended until it covers Latin America as a whole, in order to increase the benefits and possibilities of fuller development and economic integration which such a market may offer ;

Decides :

1. To congratulate the secretariat on the efficiency with which it has discharged its responsibilities pursuant to resolution 101 (VI) ;

2. To express satisfaction at the success of the Trade Committee's first session to take note with satisfaction of all those aspects of its report relating to the regional market, and to endorse resolutions 2 (I) and 3 (I) of the aforesaid Committee ;

3. To take note of the instructions to the secretariat both as regards the inventory of existing industries in Latin America and with respect to the convening of a group of experts to undertake the work pursuant to resolution 3 (I) ;

4. To recommend to the secretariat :

(*a*) That it consider the desirability of expediting the implementation, within the shortest possible time, of resolutions 2 (I) and 3 (I) of the Trade Committee, with a view to taking a more decisive step towards their underlying objective ;

(*b*) That it conduct research and compile all data that may serve as a basis for the work of the Group of Experts mentioned in resolution 3 (I), at the earliest opportunity, so that the availability of such background information may facilitate the task of the Group ;

(*c*) That it call the attention of the Group of Experts to the specific situation of those Latin American countries which are landlocked or whose economic structure is dependent on a single branch of production or lacks diversification, so that the Group may consider, in planning the structure of the regional market, the possibilities for the absorption of the exportable commodities of such countries and for facilitating their industrial development within such a market ;

(*d*) That it also request the Group of Experts to consider, in planning the structure of the regional market, the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries ;

(*e*) That it request this Group to study the problems facing the development of a regional market, in which study consideration would be given to each and every Latin American country, bearing in mind its situation and possibilities ;

5. To empower the secretariat to request, should it deem this necessary, the collaboration of other competent international agencies in the preparation of the studies or compilation of the data referred to in paragraph 4, items (*a*) and (*b*).

B

The Economic Conference of the Organization of American States,

Bearing in mind :

The study presented by the secretariat of the Organization of

American States on Liberalización del Comercio Interlatinoamericano (Document 3);

The report presented to this Conference by the United Nations Economic Commission for Latin America, entitled "ECLA activities relating to payments and a regional market in Latin America" (E/CN.12/483); and resolution 117 adopted at the seventh session of the Economic Commission for Latin America;

Considering:

That the increasing economic development of the Latin American countries calls for a greater expansion of inter-Latin American trade which will enable the available human and material resources to be turned to better account;

That the future development of certain industries, especially the basic industries, requires, among other factors, high capital density and more complex production techniques, and, consequently, the stimulus provided by markets larger than that of any one country;

That it would be advisable to study measures and suggest possible approaches to economic integration which take into account all the countries of Latin America and which will be conducive to the creation of a broad Latin American market;

That in this connexion it is particularly important to bear in mind the processes of economic integration which are taking place in other regions of the world, and which, according to the methods adopted, may have perceptible effects on the trade and development of the Latin American economics, as stated in resolution 121 (VII) of the Economic Commission for Latin America;

That the Economic Commission for Latin America, through its appropriate organs, has made progress in its studies on payments systems and other subjects connected with the creation of the Latin American regional market;

That a group of central bank experts from Latin American countries between which bilateral accounts are in force is studying the establishment of a régime that will gradually lead to a multilateral payments system, which in turn constitutes a preliminary step towards the creation of conditions favourable to a regional market; and

That co-ordination and co-operation between the Inter-American Economic and Social Council and the Economic Commission for Latin America is advisable from every point of view, so as to prevent duplication of work and expenditure, as well as the dissipation of effort, and that such co-ordination has been shown by experience to constitute a satisfactory method of work,

Declares

That it is desirable gradually and progressively to establish a Latin American regional market on multilateral and competitive bases; and

Decides:

1. To recommend to the Inter-American Economic and Social Council that, to avoid duplication, after consultation between its secretariat and the secretariat of the Economic Commission for Latin America, and subject to the terms of the co-operation agreements in force between these two organizations, it take part in studies and other work preparatory to the creation of the Latin American regional market;

2. To request the Inter-American Economic and Social Council that it inform the Economic Commission for Latin America of the substance of this resolution, and of the points of view on the Latin American regional market expressed by the various representatives attending the present conference, so that they may be taken into account in the further pursuit of the studies undertaken on this topic;

3. To express its gratitude to the Economic Commission for Latin America for the valuable data supplied to this session in document E/CN.12/483.

(Resolution XL of the Economic Conference of the Organization of American States) [e]

[e] Unofficial translation.

II. Recommendations concerning the structure and basic principles of the Latin American common market

Report of the second session of the Working Group (Mexico City, 16 to 27 February 1959)

BACKGROUND DATA

Pursuant to resolution 116 (VII), adopted by the Economic Commission for Latin America at its seventh session, and the decision taken by the Working Group on the Latin American Regional Market at its first session, held at Santiago, Chile, in February 1958, the secretariat convened this second session to enable the Group to consider in more specific terms the bases for the formation of the Latin American common market outlined at the first session.

The Group was composed of the following members:

Carlos D'Ascoli, Senator (Venezuela)

José Garrido Torres, Executive Director of the Department of Currency and Credit of Brazil

Rodrigo Gómez, Director-General of the *Banco de México*

Flavian Levine, Director of the *Banco Central de Chile*, Professor of the University of Chile, Manager of the *Compañía de Acero del Pacífico*

Carlos Lleras Restrepo, Senator (Colombia)

Eustaquio Méndez Delfino, President of the Buenos Aires Stock Exchange and former President of the Honorary National Commission of Economy and Finance of Argentina

Raymond F. Mikesell, Professor of the Economics Department of the University of Oregon, United States

Juan Pardo Heeren, Former Minister of Finance of Peru

Galo Plaza, Former President of the Republic of Ecuador

The Group met at the Mexico Office of the Economic Commission for Latin America from 16 to 27 February 1959. Mr. Galo Plaza and Mr. Carlos Lleras Restrepo were elected Chairman and Rapporteur respectively.

Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs, opened the session and conveyed to the Group the good wishes of the Secretary-General of the United Nations.

The ECLA secretariat collaborated closely with the Group both in the preparation of documents and in the discussions themselves. The following staff members attended:

Raúl Prebish, Executive Secretary of the Economic Commission for Latin America

Esteban Ivovich, Chief, Trade Policy Division (secretary of the session)

Santiago Macario, Economist, Trade Policy Division

Consultants from the ECLA Mexico Office

Cristóbal Lara Beautell, Acting Director

Pedro Abelardo Delgado, Secretary of the Central American Economic Co-operation Committee

Rafael Izquierdo, Economist, Trade Section

Salvador Vilaseca, Assistant to the Director

Officials specially invited by the secretariat

Cecilio Morales, Director of the Economic Department, Organization of American States

Ricardo Almanza, General Secretary of the Board of Foreign Trade, Ministry of Foreign Affairs, Mexico

Rafael Urrutia Millán, Director-General of Financial Studies, Ministry of Finance and Public Credit, Mexico

Octaviano Campos Salas, Director-General of Trade, Ministry of Industry and Trade, Mexico

Agustín López Munguía, Technical Sub-Director of Financial Studies, Ministry of Finance and Public Credit, Mexico

Guillermo Ramos Uriarte, Chief, Department of Trade Policy, Ministry of Industry and Trade, Mexico

Julio Ocádiz, Deputy Chief of Economic Research, *Nacional Financiera de México, S.A.*

The Group took as a basis for its work the report prepared by the secretariat, " Possible alternatives for the establishment of the Latin American regional market " (E/CN.12/C.1/WG.2/7).

As the result of the session, the Group adopted the attached report which will be submitted by the secretariat to the Trade Committee at its second session to be held in Panama during May 1959.

At the end of the session, both the Chairman of the Group and the Executive Secretary of ECLA expressed their gratitude to the Government of Mexico and the *Banco de México* for all the attention and facilities which the group members had received during their stay in Mexico.

INTRODUCTION

At its first session, the Working Group prepared a series of bases or points of view designed to serve as a guide for further studies on the gradual and progressive establishment of the Latin American common market. At the same time, it requested the secretariat of the Economic Commission for Latin America to carry out additional studies and research which would help the Group to continue its work during its recently completed second session.

The secretariat's contribution proved highly useful during that session and enabled the members of the Group to crystallize, in the form described in this report, their ideas on the structure which the common market should assume and on the basic principles which should govern its operation.

The Group feels that if, at the eighth session of ECLA to be held at Panama City in May 1959, member Governments give their general approval to the recommendations set out in this report, the secretariat could then prepare, in close collaboration with the Governments concerned, an initial common market draft agreement which would help to bring together those countries interested in putting the idea into immediate effect.

The task is not easy. But the existence of a ready-made structure and of some clearly-defined working principles, approved by Governments, would make it less difficult. Even so, the method of expressing this structure in terms of specific projects and of setting targets for reductions in duties and similar taxes and restrictions will require an effort of considerable magnitude as regards both time and concentration. However, this work must be done, and one of the advantages of approving these recommendations would be that a specific model would be provided. Otherwise, the work would prove extremely complicated and time-consuming.

Given the essential character of these recommendations, which are presented to the secretariat for transmission to member Governments, and given the Group's terms of reference, the members of the Group have never had any intention of formulating a specific agreement.[33] The definition of terms and their scope, required in such a draft, have not been considered in

[33] Trade Committee resolution 3 (I), under which the Working Group was set up, assigned to it the following functions: (*a*) to define the characteristics of the regional market, bearing in mind the differing degrees to which the countries of the region are industrialized; (*b*) to study its possibilities and projections; (*c*) to submit recommendations on basic principles and procedures for its establishment, within the terms of reference of the Trade Committee as defined in resolution 101 (VI) (E/CN.12/410).

this case. It was felt preferable to put forward basic ideas, bring out their general content and avoid those special cases or problems which require individual interpretation. The Group feels that what is required at the moment is to sketch the general outline of the common market so as to provide the secretariat with a basis for entering upon a new stage in its work. Governments, with this clear outline before them, will be in a better position to weigh the advantages of the common market and its repercussions on their respective economies. Progress towards an agreement for actually setting up such a market will thus be facilitated.

Of course, more time than was available to the Group at this second session would have been needed to tackle further problems of the common market's establishment and operation: Approval of these recommendations by Governments would constitute the essential starting-point for entering into these other matters.

Mr. Raymond Mikesell pointed out that he was unable to agree with every point of detail in the report.[34]

BASIS FOR A POSSIBLE AGREEMENT SETTING UP THE LATIN AMERICAN COMMON MARKET

A. *Structure*

I. *Objectives*

1. The agreement setting up the common market is designed to help expedite the balanced economic development of Latin America, its progressive industrialization and the introduction of improved techniques in its agriculture and other primary activities, with a view to promoting higher levels of living for its people, through:

(*a*) the establishment of a preferential system for trade between Latin American countries; and

(*b*) the growth of its foreign trade as a result of the expansion of industrial exports and the promotion of exports of agricultural and other primary commodities, both within Latin America and with the rest of the world.

II. *Juridical form*

2. The juridical form contemplated in this agreement is that of a free-trade zone designed to be transformed gradually into a customs union, it being understood that this form may be adapted to the actual requirements of Latin America.

III. *Customs and liberalization régime*

3. In order to establish the common market gradually and progressively for all products included in the international trade of the Latin American countries, the reduction of customs duties and other similar taxes and restrictions will be carried out in two stages.

The first stage, lasting ten years, will involve the substantial reduction, among the parties to the agreement, of customs duties and other taxes similar in their effect and the elimination of other restrictions converted, where necessary, into customs duties.

The reductions referred to in this section will be irrevocable, except as provided in sections II and IX of the Basic Principle, and will be effected in the following manner:

(*a*) Within one year from the entry into force of the agreement, a uniform percentage reduction will be applied to each of the customs duties, together with an equivalent reduction of other restrictions;

(*b*) Within five years from the entry into force of the agreement, non-tariff restrictions will be eliminated or converted into customs duties, except as provided in section IX of the Basic Principles; and

(*c*) During the first stage of ten years, customs duties and other taxes similar in their effect will continue to be reduced to the point where they reach the average levels fixed in accordance with the criteria laid down in paragraphs 5 and 8 below.

The Committee on Trade Policy and Payments referred to in point XI (henceforward " the Committee ") will supervise the implementation of the provisions set forth in this section and of any additional pacts entered into by member countries in carrying out the agreement, for the purpose of effecting gradually and progressively the specified reductions.

4. During the second stage, the reduction of duties and similar taxes will proceed further, and, as this reduction progresses, the preferences referred to in paragraph 10 will be gradually abolished in order to complete the organization of the common market.

Before the end of the first stage, the Committee will make arrangements for negotiations to fulfil the above purpose.

IV. *Classification of products*

5. With a view to carrying out the measures referred to in paragraph 3, products will be divided into the following three categories:

Category I. Primary goods;

Category II. Capital goods, motor vehicles, other durable goods, intermediate articles and others for which demand tends to grow relatively intensively or a large import substitution margin exists;

Category III. Manufactured goods for current consumption in respect of which demand tends to grow relatively slowly and import substitution possibilities may become exhausted or considerably strained, except for the import substitution margin in those countries in the incipient stage of development referred to in paragraph 7.

[34] See the annex to this report.

V. *Programme for the first stage*

6. During the first stage, the reduction of customs duties and of other taxes similar in their effect will be carried out in the following manner:

(*a*) Abolition of such duties and taxes in the case of products in category I, with the exceptions to be agreed upon—when they are indispensable and with particular reference to agricultural commodities—in order not to affect certain branches of production so long as it is impossible to put the productive factors involved to more economic use;

(*b*) For products in category II, the target will be the reduction or abolition of customs duties to the point where, within this category, the lowest possible average is achieved in order to intensify regional trade in these items;

(*c*) For products in category III, the target for the reduction of customs duties will be lower than that for category II to ensure that the specialization of existing industries and their adaptation to common market conditions is effected gradually and without creating difficulties which impede the regular employment of the productive factors involved.

VI. *Régime for relatively less developed countries*

7. In order to encourage the development of countries in the early stages of industrialization and to make the benefits of the common market available to them on bases of effective reciprocity with the industrially more advanced countries, they will be given differential treatment.

For this purpose, the Latin American countries will be classified as follows according to their respective available margins of import substitution and their respective export possibilities in each of the categories of goods listed in paragraph 5:

Group A. Countries of more advanced development in categories II and III.

Group B. Countries of relatively advanced development as regards manufactured goods for current consumption (category III), and whose production of capital goods and other goods in category II is incipient or non-existent.

Group C. Countries of incipient development as regards manufactured goods for current consumption (category III) and undeveloped as regards capital goods and other goods in category II.

8. The following procedure will be adopted for according differential treatment to countries of incipient development in Groups B and C:

(*a*) The agreement will establish their reduction targets during the first stage, for categories of products in which their development is incipient, at average levels of duty moderately higher than those generally laid down for parties to the agreement;

(*b*) Negotiations will be held within the Committee whereby a given group of countries will grant special concessions to countries whose development is incipient as regards products in categories II and III. (Such concessions may be made by countries in Group A to those in Group B or C or by countries in Group B to those in Group C.) If the concession is made to a country in Group C, it will be automatically extended to the other countries of this group; if it is granted by a country in Group B, it will be extended automatically to countries in Groups B and C.

In return for these special concessions, countries in the early stages of development may in turn grant facilities for imports of capital goods or other goods in Category II from countries in Group A or B or for imports of current consumer goods from countries in Group B, either by reducing customs duties below or within the average level fixed for them or by increasing their duties *vis-à-vis* the rest of the world if that should prove necessary to establish an effective preference in respect of given items. The facilities which countries in Groups A and B receive by virtue of this reciprocity will be extended automatically to all the parties to this agreement.

VII. *Size of the market and initial groupings*

9. The common market must include all the Latin American countries or the greatest possible number of them. This aim will not prevent an initial group of countries from launching the common market, provided (*a*) all the countries of Latin America are invited to the initial negotiations; and (*b*) those that do not sign the agreement at the outset are allowed to do so later in one of the following ways:

(i) within the first year of operation of the agreement, in which case the new members will be allowed the same periods of time for reducing their customs duties as those fixed for the original signatories;

(ii) after the agreement has been in operation for more than one year, in which case the new members will be allowed the periods of time still remaining to the original signatories for achieving the targets specified. However, it may be agreed upon after negotiation that the period of ten years laid down in paragraph 3 should start from the date of accession of the new signatory, both as regards the reductions it is to grant and those to be granted to it by the other signatories.

VIII. *Specific complementarity and specialization agreements*

10. For the purpose of promoting industrial complementarity or specialization, two or more participants, linked by geographical proximity or common economic interests, may, with the Committee's approval, agree upon reductions or abolitions in respect of customs duties which are not designed to be extended automatically to the other members. Such reductions or abolitions will not be calculated at the average level of customs duties laid down as a general target for all parties to the agreement.

IX. *Treaties on trade or economic matters not covered by the agreement*

11. Member countries which consider it necessary may enter into treaties among themselves for settling specific trade or economic matters not covered by the agreement, such as those relating to their border trade or the pooling of natural resources from adjacent national zones.

Such treaties must be submitted for the Committee's approval.

X. *Most-favoured-nation treatment*

12. In each signatory country, the products and services originating in the other signatory countries, or exported to them, will enjoy in all respects treatment no less favourable than that granted to any country, whether a party to the agreement or not.

Hence, all the reductions of customs duties—as well as the reduction or abolition of taxes and other restrictions which, in fulfilment of the established targets or of any higher ones, a country may make unilaterally, bilaterally or multilaterally—will be extended to the other signatories, except for the following:

(*a*) special concessions granted reciprocally to countries in the early stages of industrial development, in accordance with paragraph 8;

(*b*) reductions resulting from the industrial complementarity and specialization agreements referred to in paragraph 10, and the treaties mentioned in paragraph 11;

(*c*) existing preferential concessions, the elimination of which must be brought about gradually in order to avoid disrupting normal trade channels;

(*d*) the concessions provided for in the instruments of the Central American common market.

The temporary differences in customs duties resulting from the accession of additional countries to the agreement, in accordance with paragraph 9, will not be affected by the application of the rules set forth in the first and second sub-paragraphs of this section.

XI. *Committee*

13. For the purpose of administering the agreement and facilitating the attainment of its ends, a Committee on Trade Policy and Payments composed of representatives of all the member countries will be set up to carry out the negotiations arising from the agreement.

B. *Basic principles*

The Working Group considers that the structure which has been recommended for the establishment of the Latin American common market should be supplemented with a series of basic principles which cover various aspects of the actual operation of the market, so as to ensure the successful attainment of its aims.

For this purpose, the Working Group recommends the adoption of the following basic principles which will have to be worked out in further detail during the negotiations required for the adoption of the agreement itself:

I. *Reciprocal trade benefits of the common market*

1. For the success of the common market it is important that all the member countries should have the opportunity of expanding their exports at the same time as they take action to reduce their duties, taxes and other restrictions on imports. To this end, member countries which, as a result of the facilities granted to them, increase their exports to the common market without a proportionate increase in their imports, should accelerate the rate at which they reduce their duties, taxes and other restrictions.

The Committee, after consulting member countries, will submit recommendations for the attainment of this objective.

II. *Stability in reciprocal treatment*

2. Member countries will not increase among themselves the duties, taxes and other restrictions in force in each of them at the time of their accession to the agreement nor those resulting from the reductions and abolitions they may subsequently make, either in fulfilment of the targets set in the agreement or within the régime of special concessions referred to in paragraph 8 of this report relating to the structure.

The following cases will constitute exceptions to this rule:

(*a*) cases in which a member country wishes to modify its customs tariff in order to enable the tariff to absorb the effects of non-tariff restrictions. Such a transfer may be effected only during the first five years of operation of the agreement;

(*b*) emergency cases provided for in section VIII of the Basic Principles;

(*c*) other exceptional cases agreed upon between the member countries during their negotiations preceding the conclusion of the agreement.

III. *Determination of the origin of goods*

3. As soon as it has been constituted, the Committee will lay down the criteria or principles to be followed for determining when a product originates from one of the member countries, for the purposes of applying the preferential treatment accorded in the free-trade zone.

IV. *Equalization of customs duties*

4. At regular intervals, the Committee will specify the products in respect of which it will be necessary to arrange for the equalization of customs duties for imports from third countries, either for the purpose of establishing an adequate regional preference or in order to solve other problems resulting from lack of uniformity

in existing duties. As regards these products, member countries will agree, through negotiations in the Committee and bearing in mind the Committee's recommendations, upon the common duties to be adopted and the form and time-limit or gradual stages of their adoption.

V. *Co-ordination of trade policy*

5. Through the Committee, the member countries will endeavour to conduct jointly or, if this is not possible, in co-ordination, trade negotiations with third countries to ensure the common protection of their interests and to see that any concessions which may be granted to third countries do not preclude a suitable margin of preference within the common market or that such concessions do not impede the application of the agreement and the attainment of its objectives.

VI. *Special programme for the reduction of high customs duties*

6. The Committee will consider the desirability of drawing up regulations to secure the reduction among member countries of very high customs duties. To this end, the Committee may establish a periodic compulsory percentage reduction of those customs duties which exceed the value of the products in question by a certain percentage.

VII. *Rules of competition*

7. In order to contribute to the smooth working of the common market, exports from one member country should not be allowed to interfere, through unfair competitive practices, with the activities of other participants, either as a result of competitive currency depreciation or in any other way.

Member countries must also refrain from discriminatory practices, so that the export prices of each article remain the same irrespective of the market of destination.

The Committee will be the judge of when a member country is engaging in discriminatory or unfair practices in its trade with the others and will take action to remedy the situation.

VIII. *Measures to remedy balance-of-payments disequilibrium*

8. Member countries whose over-all balance-of-payments has improved as a result of the reduction policy will accelerate the rate at which they lower their duties, taxes and other restrictions. The Committee will make recommendations for the achievement of this objective.

Those members which, as a result of this reduction policy, have incurred a deficit, or increased an existing one, may temporarily slow down the rate of reduction after consulting the Committee. However, this slowing down will not absolve the debtor countries from the obligation of taking action to correct their disequilibrium.

IX. *Emergency measures (safeguard clauses)*

9. If the application of the measures for reducing customs duties and other taxes and restrictions provided for in the agreement should give rise to serious disturbances in any important sector of a country's economic activity, or cause considerable unemployment of labour which cannot be absorbed in other activities, the country concerned may suspend temporarily, as an emergency measure, the application of concessions already granted as well as the granting of new concessions. At the same time, it may put into effect special measures to protect the national interests involved.

The Committee will be duly informed of the suspension; will promptly examine the underlying causes; and will initiate whatever collective measures it deems necessary for remedying it.

If the suspension of concessions should be prolonged for more than one year, negotiations will be held, at the request of any member country, with a view to re-establishing the reciprocal situation prevailing before, or to finding new ways and means of ensuring equilibrium.

X. *Customs and statistical co-ordination*

10. Within five years from the entry into force of the agreement, member countries will adopt a standard customs nomenclature, as well as common customs definitions, procedures and regulations, and will co-ordinate their national statistics, bearing in mind the different needs which will arise from the implementation of the agreement and the operation of the common market.

The Committee will lay down the necessary criteria in order to facilitate the implementation of this provision.

XI. *Participation of representatives of economic activities*

11. In the organization and operation of the common market, the Committee will maintain close contact with representatives of the different economic activities and enlist their help in the preparation of appropriate measures.

XII. *Payments régime*

12. The effective operation and development of the common market will require the organization of a payments and credit régime to facilitate the multilateral liquidation of transactions between member countries. The criteria to be adopted in this respect should envisage the opening of sufficient credit to encourage a substantial growth of trade within the common market.

Comments on the recommendations

A. *Comments on the structure*

I. *Objectives*

In support of the conclusions reached by the Working Group during its first session at Santiago in February

1958, the report recommends to Governments the gradual and progressive formation of a Latin American preference zone as a further step towards constituting the common market. In this zone, all products, both primary and industrial, of Latin American origin should receive, in trade between the various countries, preferential treatment *vis-à-vis* the rest of the world.[35]

The Group considers that, at the present stage of Latin American economic development, this preferential system is essential to boost industrialization. Apart from the beneficial effects which it will have on the level of living of the population, it will enable Latin American industry to develop its industrial exports to the rest of the world and thus invigorate its international trade.

II. *Juridical form*

The Group considered that, to begin with, the common market should be legally constituted as a free-trade zone. It thus does not explicitly recommend the immedite establishment of a common customs tariff for all the Latin American countries *vis-à-vis* the rest of the world, as in the case of a customs union, although gradual progress must be made towards this objective to facilitate the development of the common market.[36]

In this respect the Group feels that Latin America should work out a solution suited to its action requirements, i.e., in harmony both with the conditions and with the possibilities of its economic development. Consequently, the choice of the free-trade zone and its gradual evolution towards a customs union does not in any way imply stricts adherence to pre-conceived formulae, but an effort to adapt these formulae to the actual Latin American situation.

III. *Specific objectives and stages for their attainment*

The final objective of the common market is the elimination of all duties and restrictions between the Latin American countries.

[35] As regards this trade in traditional commodities, the Trade Committee, in resolution 4 (I), paragraph 2, recommends to Governments:

"... (*b*) That such products be marketed among the Latin American countries at international prices and on terms similar to those prevailing for the region's trade with the rest of the world; and that, prices and other conditions being equal, the commodities in question be purchased as far as possible within Latin America, to the extent permitted by the foreign trade régime of the countries of the region;

"(*c*) That, in accordance with prevailing world market conditions, countries which cannot meet their own needs purchase such products as far as possible from the usual sources of supply within Latin America, in so far as the producer countries are in a position to meet the requirements of their regular customers, and, in the case of countries maintaining payments agreements, when the payment availabilities created in the consumer countries so permit."

[36] Under Basic Principle IV, the Committee is to specify at regular intervals the products in respect of which customs duties on imports from outside the common market should be equalized or standardized in the member countries.

The Group began by considering in detail whether: (*a*) an attempt should be made from the outset to secure an absolute undertaking by all the participating Governments to abolish completely customs duties and other similar restrictions within a given period; or (*b*) whether it would be more desirable to divide the common market process into stages and to try to fix limited objectives for an initial stage, leaving for subsequent negotiation, during a second stage, whatever measures seem advisable in the light of the experience gained.

To accept an absolute undertaking from the outset in a field in which Latin America is completely lacking in experience might prove to be a real leap in the dark. Fortunately, such a course is unnecessary. The final aim of achieving the common market and the possibility of reaching initial agreement on limited but very specific and well-defined objectives are perfectly compatible. The gradual attainment of such objectives should provide Governments with experience of the best way of reaching the final objective within a more or less short period.

In this context, it is felt—and this report so recommends—that the most suitable type of agreement would be one under which participating Governments would undertake to eliminate all their restrictions or convert them into customs duties and reduce the amount of these duties in such a way that, after a period of ten years, the average level of customs protection does not exceed a certain level. Once this aim has been achieved, the Governments, profiting from the experience gained, would enter into new general negotiations with a view to agreeing in what form, to what extent and within what period of time the reduction of duties could be continued during a second stage.

The main advantage of a formula of this kind is that it combines a cautious attitude with a firm decision to reduce the present levels of protection among the Latin American countries. Even though the undertaking is only a partial one, it nevertheless sets specific objectives which pave the way towards the common market. The idea would court failure in actual practice if Governments merely expressed pious intentions without any agreement on a substantial reduction of present tariff levels. In the Group's opinion, such an undertaking is the minimum required as a starting-point for the formation of the common market.

Reference has just been made to the idea of reducing import duties to a certain average level, after a period consisting of a given number of years.[37] This procedure offers two essential advantages: (*a*) it will allow Governments great flexibility in the application of reductions; and (*b*) it will facilitate negotiations for the accession of new countries.

So far as flexibility is concerned, the average will enable each Government to initiate and continue the

[37] It should be emphasized that what is contemplated under the average-level procedure is not an undertaking to reduce the initial level of duties by a given percentage but an undertaking to bring those duties to a certain agreed average level on the completion of a stipulated period of years.

reduction of duties and restrictions in the form best suited to its interests, always provided that the average level agreed upon is finally reached. Within the margin of flexibility of this average-level procedure, each Government would be free to continue introducing unilaterally the reductions to be effected in fulfilment of the undertaking made, or to negotiate such reductions bilaterally or multilaterally with other contracting countries. However, it is important to stress again that these reductions would not be carried out haphazardly but according to a clear-cut plan: that of not exceeding, at the end of the first stage, the average level of import duties agreed upon.

An example will throw further light on this idea. Suppose that, within a given category of goods, the present level of customs duties in a given country is 40 per cent and that the Governments agree to reduce the average in question to 10 per cent at the end of the ten-year period. This in no way signifies that customs duties will have to be reduced to 10 per cent for all the products in that category. On the contrary, the Government of the country in question may reduce duties in the manner it considers most convenient. It is conceivable, for example, that for a third of the imports in this category duties may be eliminated altogether; for another third, the average might be reduced to 5 per cent; and hence for the remaining third an average of 25 per cent could be maintained.[38] This latter average would include duties higher than 25 per cent to compensate for other relatively low duties. In other words, the system is extremely flexible and will enable Governments to take expedient measures without infringing the undertaking to reduce the average level to the agreed figure.

In order to achieve even greater flexibility, the manner in which these reductions in the average are to be carried out periodically would not be laid down in the agreement but would be left for a subsequent decision by Governments in a committee of representatives, whose establishment is also recommended by the Working Group. In this way, if the gradual reduction of import duties among member countries were not proceeding at the proper speed for the purpose of the agreement, measures might be worked out for increasing the tempo, and intermediate targets might even be adopted.

The average system also offers great advantages in connexion with the accession of new countries. For if an initial group of countries had begun to form the common market, any country wishing to join it later could be incorporated simply by accepting the averages agreed on by the others.

If this procedure were not followed, the incorporation of a new country would give rise to difficult and troublesome negotiations, which would be the more protracted the greater the number of contracting countries. Moreover, it would be difficult to determine the equivalence of concessions between the countries already in the common market and the one wishing to join it.

All this is avoided by the averages system. The new participant will merely have to undertake to reduce average customs duties in the manner agreed on by the other parties to the agreement to become a member.

The Working Group did not consider it advisable to specify the amount of the desirable reduction in duties in exact terms. It believes that for the moment it is enough to establish the procedure for making the reduction, and the stages by which the plan should be carried out. If at the forthcoming session at Panama, Governments should take a decision with regard to the procedure recommended in this report, the problem of the actual target figure for the reduction of import duties can then be taken up. Once the relevant recommendation had been approved by Governments, the secretariat, together with such experts as it may be decided to appoint, would carry out a careful investigation with a view to submitting to Governments for their consideration, the alternatives considered most suitable.

In addition to the averages system as a means of reducing customs duties and equivalent charges within a period of ten years, the Working Group recommends that this process should be initiated at once, within the first year of operation of the agreement, by means of an initial reduction (not in the form of an average) of each and every customs duty and restriction (of the order say of 5 to 10 per cent) with a view to introducing the preferential system forthwith and giving it an initial impetus which might perhaps be decisive for Latin American trade. These cuts would later be counted as part of the reductions towards the average to which reference has already been made.

Similarly, the Group recommends to Governments that within the first five years of operation of the agreement all currency, quota or financial difficulties, etc. hampering Latin American trade should be lifted. Since these restrictions are due, in a number of countries, to the fact that the customs tariff has lost its effectiveness in practice, partly as a result of inflation, the Group recommends that Governments should be left to decide whether or not and to what extent to convert these restrictions into customs duties before abolishing them.[39] Naturally, the customs duties thus increased would be subject to the levels agreed on and to the reduction rate or procedure fixed for the gradual attainment of those levels.

The Group recommends that in principle the reduction of customs duties and other equivalent charges (as also the elimination of other restrictions) should be irrevocable, so as to ensure the stability of the reciprocal treatment—with exceptions which will be dealt with in the appropriate place.[40]

[38] This would happen if the import figure, and hence the weighting in the average, is equal for each of the three parts into which the products in this category have been divided for the purpose of the illustration.

[39] See sub-paragraph (*a*) of Basic Principle II.

[40] Basic Principle II provides more specifically for an obligation not to increase the duties, charges and restrictions referred to, whether original or already reduced, but indicates certain exceptions which should be made, in the Group's opinion, to this rule.

IV and V. *Classification of products and programme for the first stage*

The Group considered it advisable to recommend to Governments that in the initial common market agreement products should be divided into three categories according to their nature and to the degree of development of the industries concerned in the various Latin American countries. These three categories are as follows:

Category I. Primary goods.

Category II. Capital goods, motor vehicles, other durable goods, intermediate articles and others for which demand tends to grow relatively intensively or a large import substitution margin exists; and

Category III. Manufactured goods for current consumption in respect of which demand tends to grow relatively slowly and import substitution possibilities may become exhaused or considerably strained.

The position of these three groups from the point of view of possibilities for the reduction of duties and the addition of restrictions recommended for the first ten-year stage is very different. Thus, for example, the primary goods which are for the most part traditional items in inter-Latin American trade offer the greatest importance possibilities, in the Group's view. Many of them, especially mineral products and other raw materials, could in a relatively short time be freed from tariff and other restrictions.

In the sphere of agriculture, however, there are important instances in which the Working Group urges proceeding with caution, for the two reasons given in the comments on Basis II in its previous report.[41] In the case of some of these products, the gradual improvement of agricultural techniques would be a first step towards their full incorporation in the common market, with a view to establishing satisfactory conditions of inter-Latin American competition. As regards other articles, it is possible that future increases in their consumption will in some cases tend to reduce the exportable surpluses of producing countries in Latin America and that that will compel other Latin American countries to maintain or increase their production even at costs above international prices, with a consequent need for protection against the rest of the world.[42]

To look at the matter from another point of view, the rapid growth of the population of Latin America and the absolute need to improve the quality of their diet call more and more urgently for the better use of the land available through a gradual improvement of techniques. The common market will greatly assist this productive development by permitting countries which, owing to unsuitable ecological conditions, are able to produce certain foods (or raw materials) only at relatively high costs, to obtain them on more favourable terms from other Latin American countries and use their land for other types of production.

The lack of a common market, and more particularly the lack of satisfactory payments arrangements between the Latin American countries, has been one of the factors hampering this better use of the productive capacity of the land. To change this situation will require a careful combination of measures of trade policy with adequate programmes of agricultural development.

It will be seen from the foregoing that special attention needs to be given to the agricultural products at present subject to duties or restrictions, and that they should be dealt with, in view of their small number and the special problems they present, through product by product negotiations.

The other two categories relate to industrial products. Category II comprises products of industries which might be described as dynamic, in view of the intensive expansion which may be expected of them in coming decades in the industrially more advanced countries of Latin America without, however, excluding the possibility that they may take root and prosper in the hitherto less developed countries.

The dynamic industries are in the main those producing capital goods, intermediate or semi-finished products and certain durable consumer goods (in particular the products of the metal transforming industries). These industries are characterized by their high degree of capital intensity, their reliance on a substantially expanding market—by virtue both of the growth of demand and of the extensive possibilities such goods offer for import substitution—and by the fact that they are new industries or industries which do not yet exist in Latin America. They thus have rapid growth prospects and offer broad and immediate possibilities of complementarity, specialization and reconstruction without the serious adjustment problems which the regional market would entail for already established and consolidated industries or industries limited to a vegetative rate of growth. In other words, it is in these dynamic industries that the greatest benefits could be derived with the last disturbances and adverse reactions.

This fact is of decisive importance for the common market. It is not a matter of one country—in any static sense—increasing its production at the expense of others; there is room for all, if the basic conditions are created which will permit the specialization of production; and this will be the easier the more rapid the growth of demand and production in the dynamic development of the common market.

The position of the dynamic industries would thus seem to be highly suited to a policy of relatively rapid reductions of tariffs and restrictions, subject to the differential treatment provided for in the case of coun-

[41] See document E/CN.12/C.1/WG.2/6, p. 10. [See p. 30 of this volume.]

[42] Since the Working Group made this observation, recent studies by the Secretariat have shown that this is in fact taking place in such important products as wheat, with regard to which it is very unlikely that the present supply-deficit of Latin America as a whole can be reduced in the next twenty years. It would be unwise therefore to drop the present system of protection without introducing other measures to stimulate domestic production of this and of other foodstuffs.

tries in which these industries are at an early stage of development.

The situation is quite different as regards the industries included in Category III, industries producing goods for current consumption. In the more developed countries, these industries are already fully established; in many of them, import substitution has been completed for some time, and the growth of production will tend to be slower than in the dynamic industries, gradually following the population growth. It is clear, however, that if a common market is established and export possibilities are opened up, some of these industries might receive a strong impetus towards expansion.

With regard to the less developed countries, although they offer room for the expansion of these industries because the import substitution margin has not yet been closed—on the contrary, it remains very wide in some of them—the competition of the more developed countries could, if caution is not exercised, have unfavourable immediate consequences for certain branches of industry.

These considerations induced the Working Group to recommend different targets for these two different groups of industrial products. For Category II, which covers capital goods and other products of the dynamic industries, it recommends as a target a low average rate of duties which will stimulate Latin American trade in these products to the greatest extent possible. For Category III, consisting of manufactured goods for current consumption, a higher average is recommended, in order not to force during the initial stage of ten years, a reduction of duties which could perhaps cause disturbances to existing industries. The reduction will have to be graduated in such a way as to facilitate the progressive development of these industries towards forms of specialization and greater productivity which will enable them to develop within a broad system of inter-Latin American competition.

Furthermore, to set a higher average rate of duties as the target for this category of products would not prevent those countries in which the manufacture of certain goods of current consumption showed dynamic characteristics from obtaining from others—with respect to such products and within the general programme of reductions—substantial tariff cuts, perhaps even greater than those fixed for products in Category II.

VI. *System for less developed countries*

It will be recalled that the main concern of the Working Group at its first session was to arrive at common market formulae which, far from placing difficulties in the way of the industrial growth of the less developed Latin American countries, would give them a vigorous impetus towards industrialization; at the present session the Working Group reached final conclusions on this very important aspect of the matter. The Group accordingly considers it advisable that the agreement should contain a classification of countries according to the degree of development in them of the industries in Categories II and III, as follows:

Group A should comprise the countries which might be called the economically more advanced countries of Latin America, countries in which the industries producing goods for current consumption—those in Category III—are in full process of development, while the capital and other durable goods industries—those in Category II—are already making steady progress in response to the demands of their economic development. Group B comprises those countries in which the industries manufacturing goods for current consumption have also developed in a manner similar to those of countries in the previous group, while yet retaining a wider import substitution margin, but in which, on the other hand, the capital-goods and other industries in Category II are either incipient or non-existent. Group C comprises countries in which the industries producing goods for current consumption are still in the early stages of development and in which there is a wide import-substitution margin and no capital-goods industries—apart from certain exceptions, usually concerned with intermediate products.

The Working Group believes that diffential treatment should be given for the benefit of countries in groups B and C. To this end, it proposes that in the common market agreement, with respect to these two groups of countries, and as a target to be achieved during the first stage, a moderately higher average level of duties should be established for the categories of goods produced by industries at the incipient stage of development. Thus, for instance, if it were established as a general target for the capital and other goods in Category II that in ten years a level of customs duties should be reached of not more, on an average, than 10 per cent of the value of imports, then for the countries in groups B and C an average level of duties of, for instance, 15 per cent could be established for this category of products. The same could be done with respect to consumer goods in category III; in the case of these, an average level could be established for countries in group C higher than that generally agreed on for countries in groups A and B.[43]

The Working Group attaches considerable importance to such differential treatment, for if all countries were considered equal from the point of view of economic development the common market agreement would embody a manifest inequality of treatment. In point of fact, if treatment is to be equal the inequality of countries must be fully recognized. But this is not the only way in which the Group has tried to provide for favourable treatment of the less developed countries; it also recommends that Governments should make special concessions in favour of these groups of countries. This requires some explanation.

In establishing a higher level of customs duties as the target for the less developed countries the Working

[43] One member of the Working Group particularly urged the secretariat, in its report to Governments, to consider the case of countries with a high level of internal costs. He felt that it would be advisable, in order to facilitate the incorporation of these countries in the common market agreement, for them to be allowed the average fixed countries in group C, even if they had well-developed consumer industries.

Group, while not wanting to encourage them to adopt anti-economic forms of industrialization, wishes to recognize the fact that owing to their lower productivity and their smaller over-all resources—in comparison with the more advanced countries—they require a greater degree of protection for the time being. These countries, however, will have to be given strong additional incentives in order to ensure, that, while receiving this greater degree of average protection, they are able to embark on vigorous industrialization with the common market in mind. This is the idea behind the special concessions. An example will help to give a clearer idea of the scope and purposes of the latter. Let us suppose that a country in group C at an early stage of development agrees by negotiation—through the Committee—with one or more advanced countries in group A to abolish customs duties for certain capital goods in which the latter are interested, either within the average applicable to them or within a lower average, if the country in question considered that desirable. In exchange for the facilities it thus granted, the group C country would receive special concessions from the more advanced countries, for example, exemption from duties for the entry into their territory of certain products which the group C country was in a position to produce economically and to export to the group A countries' market. In order that the concession thus received by the group C country should be effective, it would be extended automatically only to other countries at an early stage of development in the same group, and not to countries in groups A and B. Thus, the group C countries would have available to them the broad and growing market of the group A country as a stimulus to their industrialization and their industrial export trade.

For their part, the group B countries which have made considerable advances in their consumer industries could similarly enter into special negotiations with the countries at an early stage of development in these goods—those in group C—in order to arrange reciprocal concessions of the same kind.

All this means that within the preferential Latin American system there would be a system of special preferences for the relatively small countries, with a view to creating conditions likely to attract domestic or foreign capital and to ensuring the use of their skills in progressive and rational industrialization, not only for the benefit of their domestic markets, but also for that of the common market. It should, however, be pointed out that these preferences would be in their favour only and that whatever facility an industrially advanced—group A—or moderately advanced—group B—country received in return for these concessions, would automatically be extended to all member countries by virtue of the most-favoured-nation clause.

VII. *Extent of the market and initial groupings*

The Working Group has already, in its first report, expressed the view that the common market should embrace the largest possible number of countries. This does not necessarily mean that it could not begin with an initial nucleus of countries having a more active interest in its formation. But in order that the market should from the very outset be of the kind desired, the Working Group considers it of vital importance to put two proposals before Governments: the first, that all Latin American countries should be invited to the initial drafting of the agreement; the second, that countries which for one reason or another decide not to participate at the beginning should be enabled to do so at any later stage without entering into complicated negotiations. This possibility has already been referred to in commenting on the advantages offered by the averages system in connexion with the accession of new countries.

There are possible identities of interest which might facilitate the formation of a broad orbit of countries. Thus, the fact that the trade of seven countries in the southern area makes up about 90 per cent of the total trade among Latin American countries (petroleum excluded) readily suggests that these countries might act as the initial nucleus of the common market. But there are other countries geographically remote from them which, for reasons of common interests, might wish to participate in this nucleus. The area of identity of interest might well be found in the field of the dynamic industries. Apart from other things, this common denominator would be a very strong factor, both for the present and for the future, in broadening the initial nucleus of the common market, and in the opinion of the Working Group everything should be done to prevent any weakening of this constructive force.

Nothing of all this, however, can be hoped for if a static viewpoint is adopted. The common market is not intended as a means for freezing present trade relations; on the contrary, the intention is to create a new pattern of trade in accordance with the profound structural changes which the Latin American economy must undergo in coming decades if it is to show vigorous growth. And geographical distance in a rapidly industrializing Latin America cannot have the same significance as it had when the countries of Latin America concentrated almost entirely on primary production for the large industrial centres. All this tends to reinforce the idea of the broadest possible grouping.

The Working Group believes that the formation of other types of groupings of countries, through exclusive arrangements, could be an obstacle to the creation of a Latin American common market. On the other hand, it is clear that geographical proximity will create, within the common market, very tightly-knit trading areas among certain groups of countries; this, however, must be the spontaneous result of the facts themselves, and not the consequence of a policy of excluding other Latin American countries solely because of their remoteness—a remoteness which will, in any case, be overcome as transport improves.

VIII. *Specific agreements for complementarity and specialization*

The above considerations should not prevent countries which are closely linked by their geographical proximity or by an identity of interests from making complementarity or specialization arrangements between themselves in order to increase the productivity and reduce the costs of certain industries. These arrangements would not—as would be desirable—be easy to put into effect if the exemptions from or reductions of customs duties agreed on between the countries concerned were at once extended to other countries by virtue of the most-favoured-nation clause. Hence, the latter clause should not be applied in such cases. This situation would, of course, have to be temporary in character, lasting until such time as the industries in question had been able to strengthen themselves through their complementarity or specialization. In addition, the Working Group considers it essential that the customs duties thus abolished or reduced should not be counted in connexion with the average levels laid down in the agreement; they would, in other words, be additional to those granted generally and would in no way affect the obligation to fulfil promises undertaken in the agreement.

IX. *Other special agreements*

In addition to the special arrangements just mentioned, the Working Group considers that the agreement should permit other special agreements between countries designed to stimulate border trade of the development of zones or basins of interest to two or more of them. It therefore recommends that such agreements should be permitted, subject, however, to the Committee's approval.

X. *Most-favoured-nation treatment*

The members of the Working Group are convinced that the sound operation of the regional market depends on the granting of equality of opportunity to all participating countries, apart from the differential treatment to be accorded, for the reasons already explained, to countries at the earliest stage of industrial development and that resulting from specialization and complementarity agreements and other arrangements of a temporary nature. In addition, the Group explicitly recognized an exception in favour of the preferences and other concessions resulting from Central American economic integration—which amounts to considering the Central American countries as an economic unity.

XI. *Trade and payments policy committee*

The common market agreement will have to lay the foundations of a policy for the gradual and continuous economic integration of Latin America within the market. But, in addition, this policy must pursue constant aims and must be continuously adapted to changing circumstances. With this end in view the Group considers it advisable that there should be set up an intergovernmental committee formed of high-ranking representatives of the contracting countries. This committee would be responsible for considering problems of trade policy, payments and the administration of the agreement. Mention has been made in the course of this report of the need for countries to undertake negotiations on particular matters dealt with in the agreement; it would be useful if these negotiations could take place within the committee even if they were to be carried on between restricted groups of countries, in order to ensure the correlation of common interests. Owing to the nature of the Working Group, this report does not go into detail regarding the functions of the committee; it would be desirable that in preparing the draft agreement the secretariat should expressly enumerate these functions and clearly specify which matters should be decided by a simple majority and which should require the unanimous assent of the member countries.

B. *Comments on the basic principles*

As they supplement or amplify the principles recommended in the part of this report dealing with structure, the meaning and purpose of most of the so-called "basic principles" proposed is obvious. However, the Group felt that some comments were called for on certain of them to which it has given special attention.

I. *Reciprocal trade benefits of the common market*

The Group considered the possibility that the progressive establishment of the common market through the gradual reduction or abolition of customs duties and other taxes and restrictions might bring substantially greater benefits to some member countries than to others. These greater benefits would probably be reflected in a persistent tendency, on the part of those to whom this was more advantageous, to export more to other common-market countries than they imported from them. In the Group's view the countries which find themselves in this position should increase the rate of reduction of their duties and other taxes and restrictions in order to promote their imports and so offer the others greater opportunities of participating adequately in the reciprocal trade benefits of the common market.

II. *Co-ordination of trade policy*

Apart from the recommendation concerning the need for member countries to carry out their trade negotiations in co-ordination with third countries, the Working Group agreed to recommend that the Latin American countries should endeavour forthwith to initiate negotiations with a view to securing recognition of regional preference through the inclusion of a Latin American waiver clause in the agreement in force, or in process of approval, with third countries; and that they should also bear in mind the advantages of this objective in the negotiations they will have to undertake with the members of the European Common Market or with other countries members of GATT.

The Working Group also recommended the renegotiation of trade treaties with third parties which might impede the participation of the Latin American country concerned in the common market.

III. *Special programme for the reduction of high customs duties*

Customs duties which, because they are too high, restrict or even render impossible the importation of the products on which they are levied will have very little effect on the determination of the weighted average level of duties, and perhaps none at all, since such weighting is based precisely on actual imports of each product. It might thus be possible for a member country, by the end of the first stage contemplated in the agreement, to reach the duty averages set as the target, or even much lower ones, while maintaining high duties on a large number of items. Furthermore, it is conceivable that the average level of duties reached by a given country (calculated in the manner described) will rise as that country reduces the duties on certain items, if the volume of imports of these is thereby increased to any great extent.

It is for this reason that the Working Group stresses the advisability of the Committee's laying down rules designed to ensure or promote the effective reduction of very high duties, for example by establishing a compulsory periodic percentage reduction for customs duties whose effect on the value of the products concerned exceeds a certain percentage.

IV. *Measures to remedy balance-of-payments disequilibrium*

The success of measures to reduce duties, taxes and restrictions will depend to a large extent on the attitude of the contracting countries towards the achievement and maintenance of their balance-of-payments equilibrium. It is possible that, as a result of such a policy, a contracting country might improve its balance-of-payments situation. In that event, the Committee should advise it to adopt further liberalization measures so that, through the resultant increase in its imports, it can help the debtor countries in their development.

Similarly, countries in the reverse position could, after consulting the Committee, take steps to reduce the rate of liberalization if that proved necessary.

V. *Escape or safeguard clauses*

Similarly, the Group considered the possibility that the concessions granted by a member country within the common market might provoke serious disturbances in some important industry or substantial unemployment among workers who cannot be absorbed in other branches of economic activity. In this case it recommends that the agreement should contain safeguard or escape clauses to allow countries in this kind of situation temporarily to suspend the concessions granted, or to withhold the granting of further rebates, without prejudice to any other measures which it may or ought to take to correct its imbalance, especially if it is of a structural kind.

VI. *Payments system*

The Group also noted with satisfaction the efforts of the secretariat to formulate a draft payments system between the Latin American countries, and hopes that it will be possible, at the next session of the Central Banks, to reach definitive formulae, because an effective payments arrangement and the smooth working of the common market are closely inter-related. Without wishing to interfere in the deliberations of the Central Banks, the Working Group would like to stress the desirability of considering, in these arrangements, the possibility of granting extensive credits, through a suitable payments system, in order to facilitate inter-Latin American trade and to prevent restrictive measures from being taken owing to payment difficulties.

VII. *The inter-Latin American financing agency and the common market*

The Working Group took note with satisfaction of the statements made by the observer sent by the Inter-American Economic and Social Council to the effect that, at the meetings being held at Washington with a view to the establishment of a Latin American financing agency, special interest is being taken in the credits and investments intended for setting up industries for the common market. The Group also considers it pertinent at this stage to point out the desirability of introducing a system of short- and medium-term credits in order to encourage exports from the industries of the Latin American countries, and it would welcome a study of this aspect of the problem.

Annex

After this report was published, the secretariat received a communication from Mr. Raymond Miskesell in which he amplified the observations referred to in the final paragraph of the introduction.[a] His comments are as follows:

1. The agreement establishing the Latin American common market should stipulate a specific date or range for the complete liberalization of trade within the area to be covered by the market. Unless this is done, it might well appear from point 1 (*a*) of the Structure, which concerns the creation of a preferential system for inter-Latin American trade, that the principal objective of the common market agreement is to establish a preferential trading area instead of a true free trade area or customs union. This impression would be strengthened by the statement made in the comments on the Structure that the juridical form of the agreement would not necessarily have to conform to a pre-established pattern.

2. Article VIII of the Structure seems to leave the door open to bilateral negotiations of a discriminatory nature. It is understandable that provisions might be made for accelerating the establishment of a common market in particular commodities, provided such arrangements conform to reasonable standards and all countries that wish to do so may take part. Special agreements might also be made to liberalize border traffic between adjacent frontier zones. But the provisions contained in the Structure as it stands are too broad and contain no safeguard other than the prerequisite that the agreement concerned should be adopted by the Committee. As this does not seem to provide adequate protection, the Working Group should make recommendations as to the criteria which the Committee should follow in the case of special agreements of this nature.

3. Lastly, Mr. Mikesell considers that, as he pointed out on several occasions during the Working Group's session, exceptions to the most-favoured-nation principle referred to in point X of the Structure should have a definite time limit or range.

[a] See p. 39.

B

INFLUENCE OF THE COMMON MARKET ON LATIN AMERICAN ECONOMIC DEVELOPMENT

E/CN.12/C.1/13
14 April 1959

I. Introduction

During the period 1945-1955, Latin America underwent a rapid process of development which enabled it to raise its *per capita* product by 31 per cent, despite the fact that the population grew by 26 per cent and *per capita* consumption expanded by 40 per cent. Such encouraging results were possible largely because the purchasing power of exports increased almost as fast as the product. By virtue of this circumstance, combined in some cases with an energetic import substitution process and in others with a vigorous inflow of foreign capital, the region was able to afford the growing volume of investment required to keep up the brisk pace of development.

In contrast with what took place in the period that began with the world depression and ended with the Second World War, development from 1945 onwards was " outward-looking " rather than " inward-looking ", as it was based more on the growth of the purchasing power of exports than on import substitution. There was virtually no change in the ratio between the value of imports and the gross national product.

A study of the prospects for the expansion of demand for Latin America's traditional export commodities seems to suggest that this experience is unlikely to be repeated during the next 15 years. As the quantum of exports will probably expand by 3-4 per cent yearly up to 1975, there is little likelihood of the terms of trade exceeding the levels registered in the least favourable years of the period just ended. These possibilities must be assessed in the light of the fact that Latin America's estimated rate of population growth will be 2.6 per cent *per annum*.

On the basis of the foregoing data it can be asserted fairly safely that Latin America has entered upon a new stage of its economic development in which it will encounter international conditions resembling those it had to face after the world depression rather than those which prevailed in the post-war years. Consequently, if the region is to continue developing at the same rate as from 1945 onwards, it will have to expedite the import substitution process to a marked extent, whatever its prospects with respect to external financing.

If, however, the process in question is thus speeded up in the setting of the individual country markets, it is likely to encounter much more serious difficulties in the future than those which hampered it in the past. Countries with a broad domestic market have already carried the substitution of local production for imports of consumer goods as far as they possibly can within reasonably economic limits. Countries with small markets at present consume 60 per cent of Latin America's imports of consumer goods, but, with a few exceptions, in their case import substitution costs might be unduly high. A similar costs difficulty might affect those countries with broad markets which would now have to carry the import substitution process into fields of production characterized by high capital density and striking economies of scale.

Consequently, the maintenance of the annual rate of growth of 2.7 per cent registered in the past does not seem feasible, unless Latin America succeeds in diversifying its exports to other regions of the world, a change takes place in the terms on which international financing is granted and the import substitution process evolves within the framework of a common market.

This last alternative—in combination with greater external financing facilities—would enable Latin America to reduce its demand for goods from outside the region to a level compatible with the foreign exchange at its disposal, without sacrificing the advantages of specialization and of economies of scale. For development in this direction to materialize, inter-Latin American trade—measured by the c.i.f. value of imports—would have to attain about 8,300 million dollars by 1975, that is, a figure eleven times higher than at present. So great an expansion does not seem impossible if it is borne in mind that Latin American demand for the goods on which such intra-regional trade would be based may increase from three to nine times over in relation to its present level if the *per capita* product expands at an annual rate of 2.7 per cent.

The analysis of inter-Latin American trade prospects and their influence on economic development is provisional as yet, since it is one of the pilot studies in this field and more thorough research is still required. However, although only approximate estimates have been attempted, there are grounds for asserting that a common market could be established, within which development would be more rapid than if the market were not organized, not only in Latin America as a whole, but in each of the individual countries of the region. It is unlikely, however, that the common market would suffice in itself to ensure equally intensive development for all its members. If reasonable disparities in their rates of growth were accepted, and the different degrees of productivity characterizing countries at various stages of development were recognized, within the next fifteen years inter-Latin American trade might reach levels high enough to prevent irremediable payments disequilibria.

II. Factors conditioning the economic development of Latin America during the past decade

Since the end of the Second World War, the average annual rate of growth of Latin America's gross national product has been 5.2 per cent, and that of the *per capita* product 2.7 per cent. These rates may be considered satisfactory in so far as they have permitted a substantial improvement in the standard of living of the Latin American population, without its entailing restrictions on consumption (see table 1 and figure I).

Table 1

Latin America : Gross national product, population, consumption, investment, exports and imports, 1945-1957

(*Millions of dollars at 1950 prices*)

Year	*Gross national product*	*Consumption*	*Gross internal fixed investment*	*Exports of goods and services*	*Imports of goods and services*	*Population (thousands of inhabitants)*
1945 . . .	30 230	23 160	4 032	6 686	3 648	138 513
1946 . . .	32 772	25 143	5 004	7 430	4 805	141 603
1947 . . .	34 418	27 522	6 764	7 215	7 083	144 851
1948 . . .	36 387	28 714	6 812	7 502	6 641	148 223
1949 . . .	37 572	30 141	6 375	6 915	5 859	151 758
1950 . . .	39 791	32 090	6 602	7 158	6 059	155 421
1951 . . .	42 086	35 087	7 378	7 137	7 516	159 197
1952 . . .	43 046	35 519	7 559	6 936	6 968	163 018
1953 . . .	44 703	36 145	7 605	7 832	6 879	166 906
1954 . . .	47 253	39 149	8 224	7 679	7 799	170 907
1955 . . .	49 976	41 017	8 651	8 360	8 052	175 068
1956 . . .	51 371	41 355	9 100	9 160	8 244	179 381
1957 . . .	53 777	43 752	10 294	9 288	9 557	183 819

Development has not been homogeneous, as will be noted if the individual countries are considered separately. That of the countries in the far south of the continent—Argentina, Bolivia, Chile, Paraguay and Uruguay—was as a rule much slower than that of the rest of the region. This provides further evidence of a process which has been observable since pre-war days, namely, the shifting of the centre of gravity of economic activity towards the north. The southern zone, which before the depression of the 'thirties contributed about half the gross product of Latin America as a whole, now accounts for less than one-third.

The unequal development of the various countries has reduced the disparity in their *per capita* products which was registered at the end of the war. Broadly speaking, it is the less developed countries that have grown the more rapidly. Haiti, on the one hand, and Venezuela, on the other, constitute two noteworthy exceptions.

The distribution of the gross national product among consumption, investment, exports and imports remained fairly constant throughout the period. The coefficient of gross fixed investment showed only slight variations, fluctuating around an average of 17.2 per cent. The same was true of the export coefficient, which averaged 18.6 per cent of the product. Imports fluctuated more sharply, but this was partly a reflection of wartime supply difficulties, which had not been completely overcome in the years immediately following the war. The import coefficent, or relationship between imports and the gross national product, hovered around 16.3 per cent.

How did it come about that Latin America was able to maintain the high rate of growth recorded from the end of the war onwards? The explanation is largely to be found in its capacity to meet the increasing capital requirements inherent in a rapid development process.

Gross fixed investment—consisting in machinery and equipment, constructions, plant, farm improvements and other similar items of expenditure—rose from an annual figure of 5,800 million dollars in 1945-1949 to 8,650 million in 1954-1956. Equipment and machinery, which obviously play a key role, constituted 26 per cent of investment[1] in the second of the periods mentioned, reaching a value of 2,220 million dollars. What the region produced, however, was a proportion approximately estimated at 9 per cent of this total. The whole of the difference was obtained through extra-regional

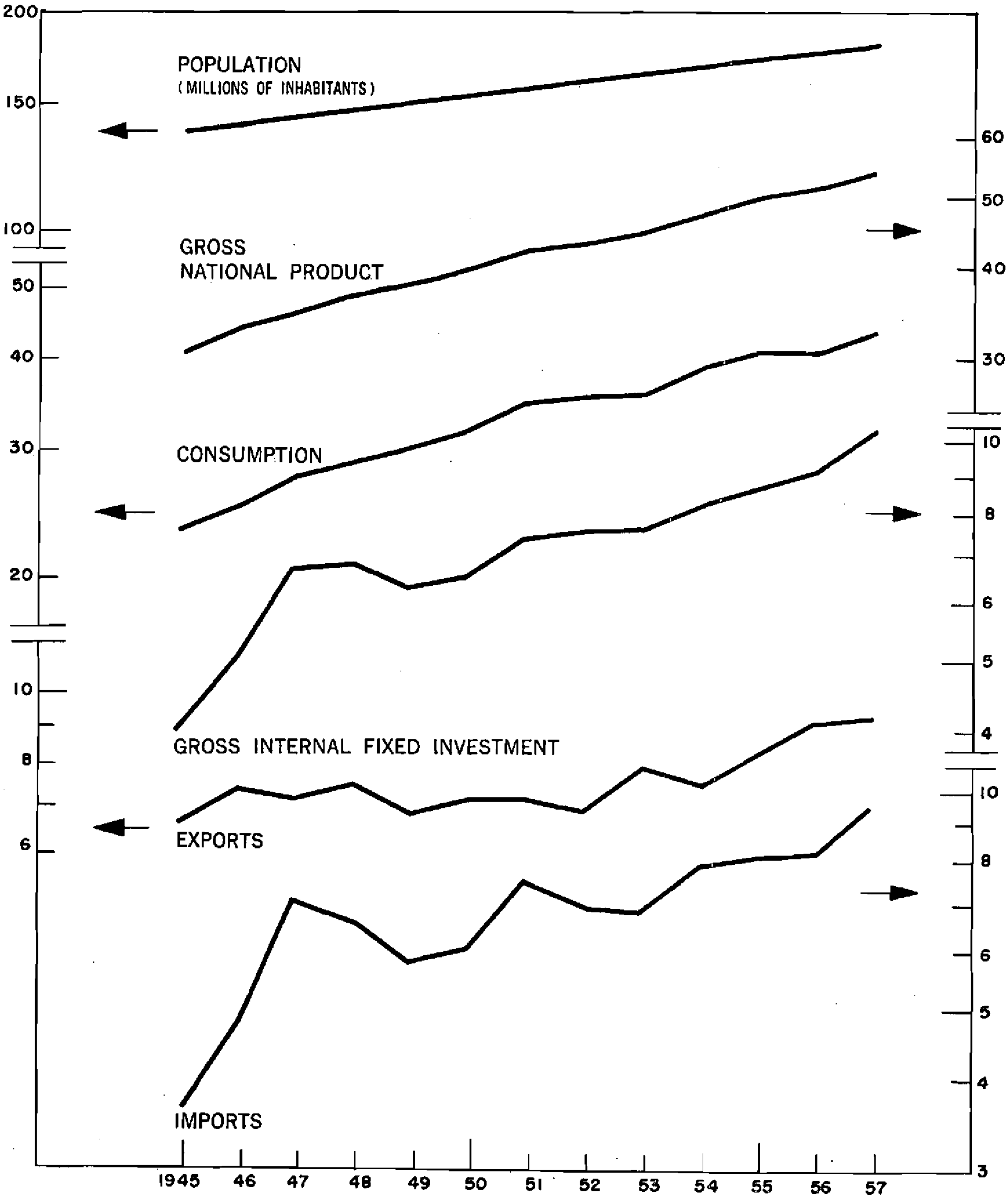
[1] New imported machinery in terms of its c.i.f. value, and domestically-produced machinery at factory prices, excluding repair, installation and marketing costs.

Figure I

Latin America: Population, gross national product, consumption, investment, exports and imports, 1945-57

(Thousands of millions of dollars at 1950 prices)

SEMI-LOGARITHMIC SCALE



trade. Latin America allocated to this item alone 32.5 per cent of its purchases from other parts of the world.

It is clear from Latin America's great dependence on external factors with respect to capital accumulation possibilities, as reflected in the foregoing figures, that its rapid development was determined by the favourable evolution of its transactions with the rest of the world. Of the three important elements in such transactions—i.e., the purchasing power of exports, import substitution and foreign loans and investment—it was the first that played the basic role, rising at an annual rate of 5.4 per cent, which was practically the same as the rate of growth of the product. The improvement in the terms of trade made a noteworthy contribution to this expansion. The value of exports (at constant 1950 prices) increased only at an annual rate of 2.3 per cent.

If the volume of exports expanded slowly, this was partly for want of diversification. At the end of the war, Latin America was essentially an exporter of raw materials and unprocessed foodstuffs. Exports not covered by this category constituted about 3 per cent of the total at the beginning of the period under review and about 5 per cent at its close.

In comparison with pre-war developments, import substitution played on the whole a secondary part. The relationship between imports of goods and services and the gross national product dropped from 30.2 per cent in 1925-1929 to 16.6 in 1935-1939. From 1945 onwards, on the other hand, it stood between 13 and 16 per cent of the product, without showing any downward trend. This does not mean that no import substitutions were effected during the period. In default of them, the import coefficient would have been bound to increase, since the growth of demand for imported goods tends to outstrip that of the product.

A fairly significant change took place in the composition of imports. The share of machinery and equipment remained more or less constant, at about 28-30 per cent, while that of consumer goods and building materials contracted. The savings achieved through import substitution in these sectors were turned to account for the purchase of a higher proportion of fuels. The proportion corresponding to raw materials and intermediate goods underwent changes which are of no significance if they are assessed for the region as a whole.

The broad general picture fails to reveal interesting differences which become apparent at once when groups of countries are considered. Those of the southern zone, with the exception of Chile,[2] witnessed no rise in the purchasing power of their exports, which continued to fluctuate around a trend curve that remained at the same level. Nevertheless, the total gross national product of these countries increased. They financed the investment entailed by imports of capital goods partly by resorting to external borrowing and drawing on reserves accumulated in earlier periods, and partly through import substitution and changes in the composition of imports. Thanks to the first two devices, the southern countries referred to were able to stabilize the coefficient of imports despite the reduction in that of exports. The change in the composition of imports took the same form as in the region as a whole; the share of consumer goods and building materials decreased, allowing that of fuels, raw materials and intermediate products to expand.

[2] Chile's terms of trade were very unfavourable in the base period.

Table 2

Latin America: Servicing of investment as a percentage of current income in selected countries and years

Country	*1938*	*1947*	*1948*	*1949*	*1956*
Bolivia	—	18.3	23.1	17.7	7.5
Brazil	—	4.6	8.5	8.6	24.6
Chile	—	17.5	19.1	17.1	16.2
Colombia	—	3.0	2.0	3.8	9.0
Costa Rica	10.9	—	18.6	22.4	13.3 [a]
Cuba	—	9.1	9.3	4.8	7.1 [b]
Dominican Republic	19.7	20.0	17.8	16.0	9.6
Ecuador	—	—	5.4	5.6	17.7
El Salvador	3.0	2.7	3.0	2.3	7.0
Guatemala	—	17.3	17.3	—	3.3 [a]
Honduras	—	24.8	21.6	—	18.7 [a]
Mexico	16.8	8.2	8.8	10.0	13.5
Nicaragua	9.7	18.0	15.0	16.7	13.8
Peru	30.9	6.2	7.2	5.9	11.5
Venezuela	31.3	38.7	38.3	26.0	27.5 [a]

Sources: 1938-49: David Finch, "Investment service of the under-developed countries", International Monetary Fund, *Staff Papers*, September 1951, p. 84 (Quoted by the secretariat of the Inter-American Economic and Social Council in *Financing of economic development in Latin America*).

1956: International Bank for Reconstruction and Development.

a Figure for 1954.

b Figure for 1953.

As was previously stated, foreign loans or investment are another of Latin America's sources of capital formation. After the Second World War, the influence of this factor, without becoming preponderant, was greater than during the pre-war period. For example, in the period 1954-1956, during which the greatest movement took place, gross receipts under the head of loans and investment amounted to 1,081 million dollars *per annum*, equivalent to 13.5 per cent of imports of goods and non-financial services[3] and 12.5 per cent of gross fixed investment. However, interest and remittances of profits totalled 981 million and amortization 313 million dollars. Consequently, an analysis of current transactions on the one hand and capital transactions on the other shows that the gross contribution of this total inflow of capital works out at 12 per cent if it is related to the total outflow of foreign exchange entailed by imports of goods and services and transfers of profits and interest, and 12.1 per cent in relation to the sum of gross real

[3] Commodity imports and payments for freight, insurance and other services, excluding payments under the head of interest, profits or amortization of foreign capital.

internal investment and financial investment effected under the head of amortization.

Here too important exceptions appear when the situation of individual countries is taken into account. To judge from changes in the proportion of current income earmarked for the payment of foreign investment services (interest, profits, etc., excluding amortization and reimbursements), the contribution of foreign investment was important in the case of Brazil, Ecuador, El Salvador, Mexico, Peru and Venezuela (see table 2).

III. Growth prospect up to 1975

1. PROBABLE DEMAND FOR LATIN AMERICA'S TRADITIONAL EXPORTS

Will Latin America be able to continue enjoying as high a rate of growth in the next few decades as in the past? What will be the strength of the respective impacts of the factors hindering and promoting rapid development? These are not merely academic questions. The course taken by Latin American development will to a great extent depend upon the economic decisions adopted at the present time; and these in turn will be influenced by what seems likely to be the future evolution of the elements affecting development, but are not very easily swayed by considerations of economic policy.

Whether Latin America's rate of development is maintained, can be accelerated or will have to be reduced will largely depend upon the degree of liberality displayed in the future by the sources of capital goods supplies. This warrants an analysis of their possible behaviour, before the discussion of alternative growth hypotheses is embarked upon.

In view of the key role incumbent upon exports, attention will be concentrated here on the prospects of expansion of world demand for traditional export commodities, and the problem of external financing will be dealt with in subsequent pages.[4]

To project the exports of a whole region is an exceptionally complex task. It means, for example, *inter alia*, that the rate of increase of the gross product and of the population of each of the leading importers and exporters of a specific item must first be projected, and that, secondly, the changes which may take place in the relative position of each of the main supplier countries must be assessed. Fortunately, concern for economic development and for the balance of international trade has encouraged the carrying-out of a large number of studies in different countries, which have served as a basis for the projections contained in the present report.[5] In any event, the estimates given are subject to error, both by the very nature of the research and because a strictly accurate assessment would call for more exhaustive studies, which it would be advisable to carry out, but which could not be undertaken on the present occasion.

On the basis of the data asembled, it was possible to formulate two projections for exports of traditional commodities in 1975. The more conservative assumes an annual rate of growth of exports of 2.8 per cent, and

[4] See the present section, sub-section 2.

[5] Demand statistics for Western Europe, Canada and the United States are taken from four basic documents. The first of these is the *Economic Survey of Europe, 1957* (E/ECE/317), prepared by the Economic Commission for Europe, which contains a projection of demand in Europe, the United States and Canada for goods from other regions, covering foodstuffs, agricultural raw materials, raw materials of mining origin, and fuels. As this document includes only a growth hypothesis for United States and Canadian demand, the analysis was supplemented by the information supplied by Henry G. Aubrey, *United States Imports and World Trade* (Oxford, Clarendon Press, 1957) and the Royal Commission of Canada's Economic Prospects, *Preliminary Report, December 1956* (Hull, Queen's Printer and Controller of Stationery, 1956). Another of the basic sources was the GATT study entitled *International trade, 1956* (Geneva, June 1957).

For specific items, the data embodied in these four documents were supplemented or modified by reference to other sources such as the Economic Commission for Europe, *The European steel market in 1958,* Frederick G. Coqueron and others, *Future growth of the world petroleum industry* (New York, the Chase Manhattan Bank, 1957); and "The savage struggle to sell oil", *Life International* (June 1958).

The possible outlook for the Japanese market was also analysed in some detail. To this end, two documents prepared by that country's Economic Planning Agency were consulted, i.e., *Economic Survey of Japan, 1957-1958* (Tokyo, 1958) and *New Long-Range Economic Plan of Japan, 1958-1962.* Use was also made of the study by the Institute of World Economy and International Relations of the Academy of Sciences of the USSR, entitled *The Renewal of Basic Capital in Japanese Industry,* and another on the development of the economic cycle in the post-war period published by the same Institute in its *Bulletin* (December 1958).

Projections for the rest of the world were partly based on data supplied by the Economic Commission for Europe in several of its annual surveys and quarterly bulletins; the National Planning Association study by Jan Wszelaki entitled *The Economics of Competitive Co-existence. Communist Economic Strategy: the Role of East Central Europe* (Washington, 1959); and Jan Niegowski's *Prospects of Improving the Standard of Living* (Warsaw, 1959).

Projections of Latin American demand were based on several ECLA secretariat studies in which demand for specific products is analysed, and further research was carried out, especially in connexion with agricultural commodities, and on production capacity in cases where lack of natural resources might constitute a handicap. In some few instances projections had to be reduced in order that due allowance might be made for the effect of such limitations.

the more optimistic postulates a cumlative rate of 3.9 per cent. As was noted, during the post-war period the volume of exports expanded at an annual rate of 2.3 per cent, which was reinforced by an improvement in the terms of trade that raised the growth rate of purchasing capacity to 5.4 per cent annually. Unless unforeseen circumstances arise, history is unlikely to repeat itself as far as world prices are concerned, and it is therefore assumed in this study that the terms of trade will remain on an average at the same level as in 1954-1956.[6]

For the purpose of the following analysis, it was felt preferable to adopt a hypothesis postulating 3 per cent as the annual rate of growth of exports. This exceeds the more conservative assumption by 7 per cent, so as to take into account the expansion of secondary items, which may be more rapid. The 3.9-per-cent projection was not considered, since it would not affect the nature of the conclusions reached, and, if it were to materialize, would simplify the problems examined here.

The figures presented in table 3 suggest that a change may take place in the relative importance of the various markets for the commodities produced by Latin America. Thus, according to the minimum projection, while total exports, including sales within the region, are likely to increase by 74 per cent, those shipped to the traditional markets constituted by Canada, the United States and Western Europe will probably expand by only 49 per cent. On the other hand, the projection assumes increments of 262 per cent in exports to other areas, including Japan and Eastern Europe, and 107 per cent in intra-regional exports.

Another postulate relates to the maintenance of the fairly long-standing trend towards a more rapid growth of demand for mining products than for other traditional commodities. According to the more conservative projection, whereas total exports would increase 74 per cent by 1975, exports of mining products would expand by 106 per cent. The more optimistic hypothesis places the corresponding figures at 115 per cent and 163 per cent. A fact worth noting is that, if these projections are fulfilled, Latin America will become a substantial exporter of iron ore and zinc. In reality, the former will come to rank among the five most important export commodities, and the mining products group will supersede foodstuffs as the main source of foreign exchange. Such a development might have significant repercussions which would aggravate the problems of instability besetting Latin America.

It is demand for foodstuffs that will grow most slowly, according to both the conservative and the more optimistic hypotheses, with the exception, in the second case, of agricultural raw materials. This is because in the latter group a great deal of weight is carried by wool, to which both projections alike attribute the value estimated as the peak level of Latin America's capacity to export (see table 4).

The changes projected in the composition of exports by commodities will be reflected in different rates of growth for the various Latin American countries' pro-

Table 3

Latin America: Projection of traditional commodity exports by market of destination, 1975

(Millions of dollars at 1954-56 prices) [a]

Group of commodities	*Total*	*Latin America*	*Rest of world*	*United States, Canada and Western Europe*	*Other regions*
	1965-56				
Total	*8 157*	*859*	*7 298*	*6 581*	*718*
Foodstuffs [b] . .	3 556	269	3 287	3 086	201
Agricultural raw materials [c] . .	1 071	98	973	745	228
Mining products [d]	2 713	366	2 347	2 138	209
Unspecified . . .	817	126	691	612	80
	1975 (Minimum projection)				
Total	*14 200*	*1 780*	*12 420*	*9 820*	*2 600*
Foodstuffs [b] . .	4 970	277	4 693	3 997	696
Agricultural raw materials [c] . .	1 528	272	1 256	824	432
Mining products [d]	5 588	676	4 912	3 728	1 184
Unspecified . . .	2 114	555	1 559	1 271	288
	1975 (Maximum projection)				
Total	*17 550*	*1 780*	*15 770*	*12 020*	*3 750*
Foodstuffs [b] . .	6 172	277	5 895	4 777	1 118
Agricultural raw materials [c] . .	1 706	272	1 434	842	592
Mining products [d]	7 129	676	6 453	4 858	1 595
Unspecified . . .	2 543	555	1 988	1 543	445
	Indices of growth of exports (in terms of value)				
	1975 (Minimum projection)				
Total	*174*	*207*	*170*	*149*	*362*
Foodstuffs . . .	140	103	143	130	347
Agricultural raw materials . . .	143	278	129	111	190
Mining products .	206	184	209	174	565
Unspecified . . .	259	442	226	208	361
	1975 (Maximum projection)				
Total	*215*	*207*	*216*	*183*	*522*
Foodstuffs . . .	174	103	179	155	557
Agricultural raw materials . . .	157	278	147	113	260
Mining products .	263	184	275	227	761
Unspecified . . .	311	442	288	252	558

a Since the price levels registered during this period for coffee, cacao, copper, cotton and petroleum were abnormally high, they were lowered for the purposes of these projections.
b Twelve staple items.
c Nine staple items.
d Seven staple items.

[6] According to forecoasts, however, coffee, cacao, cotton, copper and petroleum prices may fall below the level registered in that period. In the case of petroleum, the international price structure is based on production costs in the oilfields of the Caribbean area. In view of the much lower costs recorded in those of the Near East, and the great importance which this area has acquired as a source of world supplies, observers estimate that the current structure of prices cannot be maintained. See article quoted in *Life International, op. cit.*

Table 4

Latin America: Projection of demand for main traditional exports, 1975

(Millions of dollars at 1954-56 prices)

Commodity	1954-56	1975 First hypothesis	1975 Second hypothesis	Indices of growth (1954-56 to 1975) First hypothesis	Indices of growth (1954-56 to 1975) Second hypothesis
Foodstuffs	*3 556*	*4 970*	*6 172*	*140*	*174*
1. Wheat and flour	241	266	329	110	136
2. Maize and coarse crops	82	135	210	164	255
3. Sugar	578	729	886	126	153
4. Fruit and vegetables	229	315	420	137	183
5. Coffee	1900	2 797	3 377	147	178
6. Cacao	160	244	281	152	175
7. Tobacco	71	93	113	131	160
8. Edible oils and fats	14	17	17	121	121
9. Meat and livestock	238	241	351	101	148
10. Dairy produce	15	10	12	67	80
11. Fish and fish products	28	53	64	189	229
12. Rice	...	70	112	...	...
Agricultural raw materials	*1 071*	*1 528*	*1 706*	*143*	*159*
1. Oilseeds	57	113	149	197	260
2. Cotton	511	525	641	103	125
3. Vegetables fibres	24	33	37	139	155
4. Wool	263	437	437	166	166
5. Hides	99	121	130	123	132
6. Quebracho	33	38	43	114	129
7. Wood	84	139	142	165	169
8. Pulp and mechanical pulp	...	82	87	...	...
9. Rubber	...	40	40	...	...
Mining products	*2 713*	*5 588*	*7 129*	*206*	*263*
1. Iron ores	105	910	1 160	864	1 102
2. Copper	425	1 232	1 524	290	359
3. Lead	88	244	279	275	315
4. Zinc	46	254	291	555	635
5. Tin	59	60	64	102	109
6. Fertilizers	58	99	112	170	193
7. Petroleum and derivatives	1 932	2 789	3 703	144	192
Total specified production	*7 340*	*10 286*	*15 007*	*140*	*204*
Unspecified items	817	2 114	2 543	259	311
TOTAL	*8 157*	*14 200*	*17 550*	*174*	*215*

Note: See table 3, footnote a.

bable exports. The countries of the southern zone, where the stagnation of exports was formerly most marked, are likely to find markets which will expand more rapidly than in the past, but even so, with the exception of Bolivia and Chile, they will lag behind the average for the region as a whole, simply because of the relative rates of expansion of demand for agricultural commodities and for mining products. All the countries producing goods of this latter type show export prospects which are better than the average for the region (see table 5).

The conclusions to be drawn from the analysis of market prospects for Latin America's traditional export commodities are not altogether surprising. In several ECLA reports attention has been called to the fact that in the developed countries aggregate demand for traditional raw materials is apt to increase less than the gross product, partly on account of the low income-elasticity of demand for some of the commodities in question, and partly as a result of the introduction of new technical processes which mean a saving in raw materials. In reality, the expansion of exports is in the long run closely bound up with diversification possibilities. Development processes alter the structure of

Table 5

Latin America : Projection of traditional exports of goods and services, by countries, and population growth, 1975

(Values in millions of dollars at 1950 prices)

Country	1954-56	1975	Indices of growth	
			Exports	Population
Total	*8 429*	*15 276*	*181*	*168*
1. Argentina	1 009	1 388	138	141
2. Bolivia	111	209	188	153
3. Brazil	1 504	2 828	188	172
4. Chile	428	904	211	149
5. Colombia	580	1 028	177	171
6. Costa Rica	100	164	164	190
7. Cuba	651	876	135	157
8. Dominican Republic	113	178	158	174
9. Ecuador	131	218	166	179
10. El Salvador	110	178	162	187
11. Guatemala	110	187	170	183
12. Haiti	41	68	165	145
13. Honduras	65	109	168	183
14. Mexico	943	1 878	199	179
15. Nicaragua	79	117	148	186
16. Panama	123	195	159	177
17. Paraguay	42	62	148	158
18. Peru	293	792	270	167
19. Venezuela	1 750	3 546	203	182
20. Uruguay	246	351	143	135

Note : This projection of exports is based on a combination of the maximum and minimum projections prepared for individual items. Furthermore, values were calculated at 1950 prices and then expressed in terms of the average purchasing power registered in 1954-56, except in those cases where they were notoriously high.

internal costs, and unless the possible increases in the costs of traditional export commodities are offset by technological innovation, by higher world prices or by devaluation, marketing difficulties will be encountered. It is easy to imagine, for example, what might happen with respect to coffee production costs in a country registering a rapid rate of *per capita* development. General wage levels would necessarily rise, and in default of the compensatory action of the factors mentioned, the country would be able to continue exporting coffee only by dint of keeping the remuneration of labour employed in coffee production relatively low, or, in other words, at the cost of an increasingly inequitable income distribution.

Consideration of the prospects for an expansion of exports by means of diversification is beyond the scope of the present study, since such a possibility largely depends upon the course that may be steered in the future by the trade policy of the leading importer countries, and upon the changes that may take place in the structure of Latin American production. However, the subject will be touched upon later, but only in connexion with the opportunities for diversification that may be provided by the setting-up of a common market.

Such limited export expansion prospects, which barely outstrip probable population growth—estimated at 2.6 per cent *per annum*—suggest that Latin America is entering upon a phase in which the repercussions of international trade on economic development will resemble the influence it exerted between the depression of the 'thirties and the Second World War rather than its effects during the post-war years. As will be recalled, in the former period purchasing power increased so slowly that the Latin American countries were compelled to choose between slowing their rate of growth or embarking upon a rapid import substitution process which would enable them to continue developing. The most significant differences may lie in the following circumstances. In the earlier period, on the one hand, alongside the stagnation of exports, the inflow of foreign loans and investment came to a standstill or dwindled to negligible proportion ; and, on the other, there were more ample opportunities for economic import substitution than at the present time.

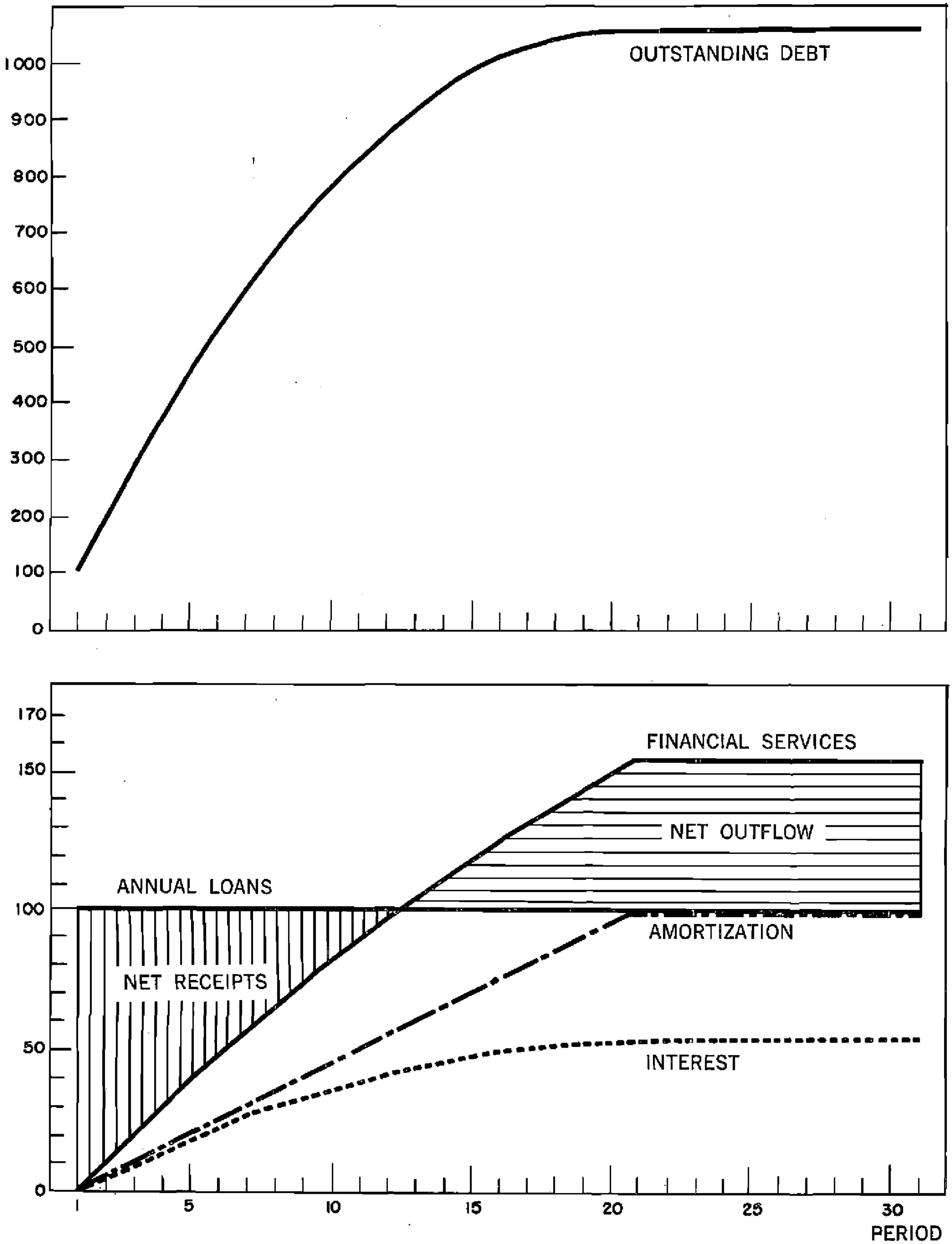
2. EXTERNAL FINANCING

Limitations of the growth of the purchasing power of exports also impose restrictions on the amount of foreign loans and investment which a country can

Figure II

Latin America: Loans of 100 million dollars per annum (amortization period for each loan: 20 years; annual rate of interest: 5 per cent)

NATURAL SCALE



contract abroad. This is because, with the enlargement of the external debt, public or private, ever-increasing commitments are created. Thus, unless the debt accumulates at a given speed, a time is bound to come when the amount of external payments due under the head of amortization and services exceeds the sums received from abroad in the shape of new contributions. The country must then achieve a favourable trade balance in order to meet its financial commitments. This is an important matter deserving of somewhat detailed discussion.

Figure II, for example, presents a case in which every year a new loan of 100 million dollars is obtained, the rate of interest payable being 5 per cent and the amortization period twenty years. Sooner or later, the amount represented by amortization must necessarily reach a point level with the new annual contribution. The total amount of the debt is therefore stabilized, but before this takes place the payment of interest will reverse the direction of the net flow of finance, which, originally positive, will become negative, and will continue to follow that trend until a maximum is reached at which it will again be stabilized. In the case under analysis, if the exports of the debtor country do not expand, it will have more foreign exchange available for imports in the next few years than accrues to it from its exports, but once the debt is stabilized it will have to replace imports by domestic production or reduce them sufficiently far below the level of exports to cover at least remittances of interest. This will be necessary even if the country's gross national product has not increased during the period concerned. On the other hand, provided that exports expand at a specific rate, even though the flow of finance may change from positive to negative, there will be no need to curtail imports when the debt is stabilized. On the contrary, they may ultimately increase more intensively. Whether import substitution is or is not necessary in such a case will depend upon the rapidity with which the gross national product rises in relation to the increment in the foreign exchange available for the purchase of goods.

If the problem is considered from the standpoint of the debtor country, the ceiling debt is determined by the rates of interest and by the amount and stability of exports. For example, if the latter represent 100 million dollars yearly, a stabilized debt of 1,000 million dollars at 5 per cent interest means that the debtor country must earmark 50 per cent of its current foreign exchange income for the payment of the interest in question. This is too high a proportion, since a 10-per-cent reduction in exports would entail a 20-per-cent contraction in imports of goods so that the servicing of the debt could be maintained. Consequently, considerations of financial prudence determine a maximum limit to which borrowing can be carried. The higher the existing degree of instability and export stagnation, the lower will this limit be.

If the direction of the flow of finance is never to change from positive to negative, the cumulative rate of increase of new loans must at the very least be higher than the rate of interest, so that the debt will continue to grow indefinitely. This case is illustrated in figure III, which assumes a 7.5-per-cent rate of increase for new loans, a twenty-year amortization period and interest at a rate of 5 per cent. In such circumstances, the annual loans received by the debtor country will always exceed the annual amount of amortization and interest which it has to pay. Thus, for example, if a creditor country whose income rises at a cumulative annual rate of 4 per cent can sustain a flow of gross loans increasing at least at the same rate (or, in other words, representing a constant proportion of its income), the debtor country will be able to count on a permanent and positive flow of foreign exchange—after the payment of interest and amortization—if the rate of interest payable is lower than 4 per cent.

No practical interest whatever attaches to the hypothesis that the flow of finance will never become negative, for two main reasons. In the first place, the costs implied by the granting of loans at the international level probably determine a floor rate of interest, while the profitability of private capital in the creditor countries themselves precludes the reduction of returns on international private investment below limits which are a good deal higher than the interest on loans. In these circumstances, if a reversal of the direction of the flow of finance were to be avoided, the rate of increase of loans and investment would have to be so high that it would probably always exceed the rate of growth attainable by the gross product of the creditor countries. Again, if the debtor countries were not to incur serious financial risks, there would have to be some guarantee that the inflow of capital would be maintained in any circumstances, and such a guarantee would be incompatible with the cyclical instability of the developed countries.

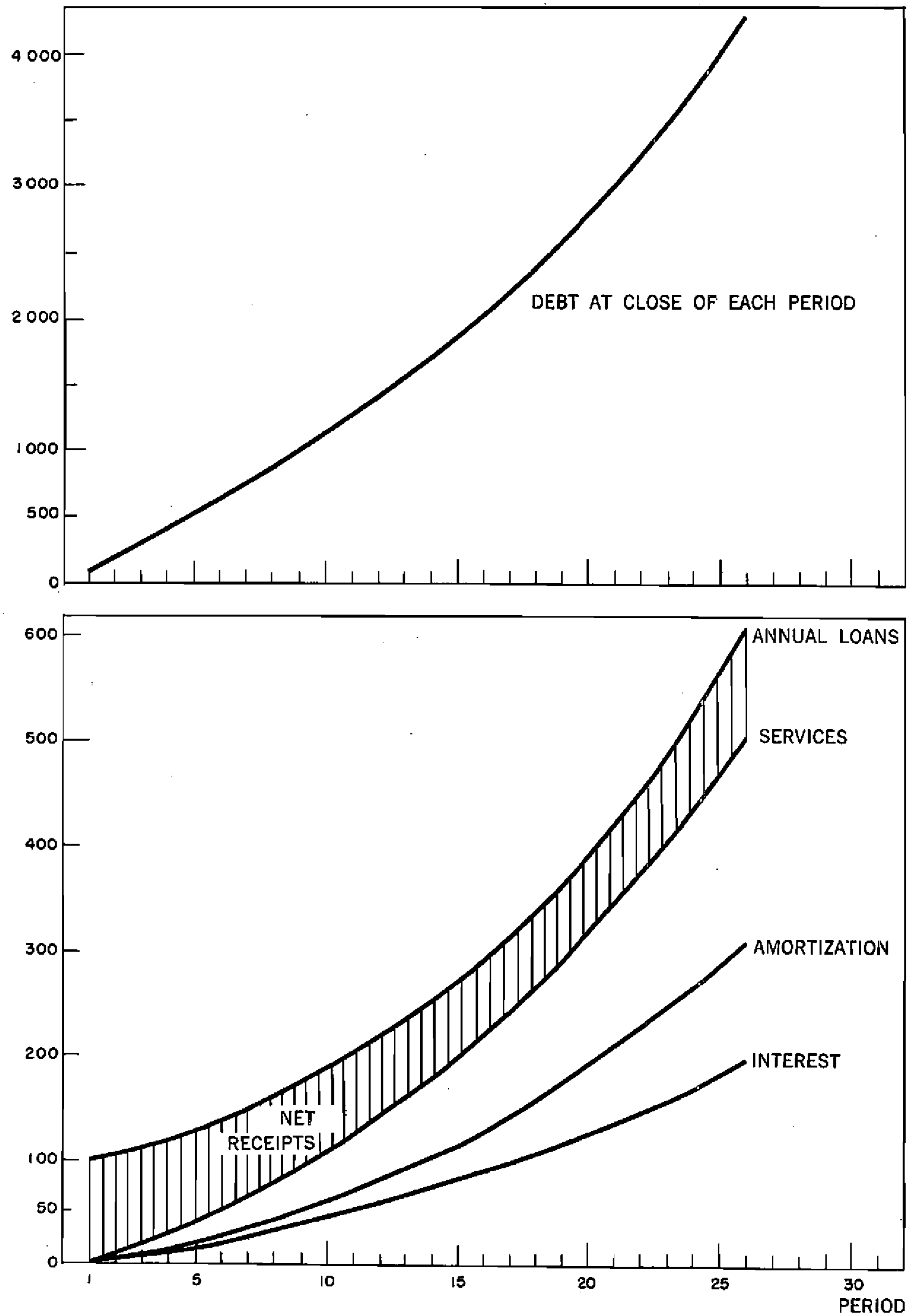
Thus, when the role of external financing is under consideration, it must always be borne in mind that sooner or later the annual flow of finance is bound to change from positive to negative, and that consequently the wisest course is not to earmark more than a small proportion of foreign exchange export earnings for the payment of financial services. Similarly, the foregoing analysis leads to the conclusion that the debts which a country can contract abroad are determined, on the one hand, by the speed with which its own exports increase, and, on the other, by the terms offered in respect of amortization periods and interest. The adoption of measures which are conducive to the establishment of more generous terms, but are unaccompanied by others designed to encourage exports or permit import substitution, is calculated to create difficulties in the long run for both the debtor and the creditor countries.

On the basis of the foregoing conclusions, and with the aim of forming some idea of the possible future importance of external sources of financing, two alternative hypotheses were prepared. According to hypothesis I, Latin America would allocate a maximum of 17 per cent of the value of its exports to the payment of interest on the debt and returns on foreign private

Figure III

Latin America: Annual loans increasing at rate of 7.5 per cent (amortization period: 20 years; annual rate of interest: 5 per cent)

NATURAL SCALE



investment, and would continue to contract such debts on the same terms as prevail at the present time.[7] Hypothesis II assumes that Latin America would fix as the limit to which it could reasonably go a maximum of 21 per cent of the value of its exports for the payment of financial services.[8] The capital-exporting countries in their turn would be prepared to give greater prominence to loans than to private investment, to such an extent that the share of the former in the annual flow would rise to 75 per cent. Furthermore, they would extend amortization periods to twenty years without altering the rate of interest, but it is assumed that there would be a smaller increment in returns on private capital.

In the circumstances postulated in hypothesis I, Latin America would receive gross contributions of foreign capital amounting to sums which would reach 590 million dollars yearly in 1961-1965, and would be gradually reduced to 400 million dollars in 1970-1974 and 270 million in 1975. According to hypothesis II, the corresponding sums would be 2,900, 1,070 and 325 million dollars respectively. Receipts larger than these would mean exceeding the limits established as financially prudent in each hypothesis.[9]

Gross receipts under the head of loans and private investment would decrease during the period covered by the projection, according to both hypothesis I and hypothesis II, since in this model the alternative possibility visualized is that receipts would be largest at the beginning, until borrowing capacity was exhausted. Other models were also considered, in which a constant or a steadily increasing inflow of capital was assumed, but in which the annual limits fixed for amortization and returns were not exceeded in either event. In such cases, the figures for gross capital receipts would be higher by the end of the period than those resulting from hypotheses I and II, respectively, but purchasing power was less at the beginning of the period.

If the terms on which external capital is made available differ from one hypothesis to the other, the financial commitments entailed will also be different. Hypothesis I postulates a much smaller increment in such commitments than hypothesis II, but the relationship between services and new contributions is a great deal more unfavourable throughout the period, except at its close. In fact, if the entire period from 1960 to 1975 is taken into account, new contributions total 8,120 million dollars in the case of the first hypothesis, and the corresponding services and amortization reach about 10,400 million;[10] whereas hypothesis II assumes new contributions amounting to 33,000 million dollars, with services and amortization representing 30,000 million. On the other hand, where hypothesis I is concerned, the servicing of previously contracted debts and existing investment involves less heavy payments. Consequently, the purchasing power implied by hypothesis II for the period as a whole exceeds that implicit in hypothesis I by 740 million dollars yearly, although annual gross income is 1,550 million dollars higher in the first case than in the second. Latin America's annual foreign exchange availabilities for imports of goods and services are shown in table 6.

It should be noted that the greater purchasing power assumed in hypothesis II is found in the first ten years; towards the end of the period, on the other hand, hypothesis I signifies a larger volume of imports, because the amount represented by interest, profits and amortization is smaller than in the case of hypothesis II, while the gap between gross capital receipts as postulated by the two hypotheses tends to narrow.

The projection of traditional exports, in combination with the two external financing hypotheses, offers two alternative possibilities with respect to the foreign exchange available for purposes of goods and services, which in turn open up differing economic development prospects for Latin America.

Consideration may first be given to the possibility that the average *per capita* product might develop at an annual rate of 2 per cent. Since the rate of growth of the population would probably be 2.6 per cent, the gross product would have to increase at a cumulative annual rate of 4.65 per cent, which would mean an increment of 148 per cent by 1975. The relationship between imports and the product resulting from these projections would fall from 16.1 in the base period to 11.3 in 1970 and 10.1 in 1975. Furthermore, if the aim were to keep up the *per capita* growth rate of 2.7 per cent registered in the past decade, which corresponds to a rate of 5.4 per cent for the aggregate product, the import substitution process would of course have to be a good deal more rapid (see table 7).

While judgement must be reserved for the moment as to whether the average import coefficient might feasibly be brought down to 8.7 or 10.2 per cent, it is worth while to point out that, if the annual *per capita* growth rate of 2 per cent were postulated, *per capita* consumption could increase by only 37 per cent in the whole course of the period, that is, at an average annual rate of 1.6 per cent, as against the 3.4 per cent registered since the war. It seems needless to point out how undesirable

[7] As no complete study of foreign private investment in Latin America exists, the figures utilized in the present document have only an approximate value. According to the information available, in 1950-1955 foreign loans and investment accounted for about 55 and 45 per cent, respectively, of annual capital receipts, excluding credits and the inflow of short-term capital. Average returns were 5 per cent annually on loans and 7 per cent in the case of remittances of profits on private investment. The amortization period was ten years.

[8] If amortization were included, the proportion would be 20 per cent on hypothesis I and 30 on hypothesis II.

[9] For purposes of the relevant calculations, the situation of each individual country was taken into account in the case of hypothesis II, but in that of hypothesis I only Latin America as a whole was considered. This affects the comparability of the two hypotheses. The procedure was adopted because the former is the working hypothesis used in the following pages. Hypothesis I is therefore of value only as an illustration of what a change in financing conditions may mean for Latin America.

[10] Services and amortization of commitments contracted before 1956 amount to 28,100 million dollars.

Table 6

Latin America : Projection of available import resources

(Millions of dollars at 1950 prices)

	1954-56	1965	1970	1975
Exports of goods and services	8 429	11 294	13 109	15 276
New contributions				
Hypothesis I	1 081	360	540	270
Hypothesis II		2 700	2 271	325
Services and amortization payments [a]				
Hypothesis I	1 294	2 258	2 620	3 055
Hypothesis II		3 389	3 933	4 583
Resources available for imports of goods and services				
Hypothesis I	8 216 [b]	9 396	11 029	12 491
Hypothesis II		10 606	11 447	11 018

Note : By 1975 the total debt, in accordance with hypothesis II, would amount to 47 000 million dollars.

a Including also services and amortization of commitments already existing in 1954-1956 and payments on which extend into the future.

b Effective imports of goods and services amounted to 7 994 million dollars.

Table 7

Latin America : Projection of economic development up to 1975, given normal external financing conditions

(Millions of dollars at 1950 prices)

	1954-56	1970	1975
Growth rate 4.65 per cent			
Product	49 555	97 990	122 990
Consumption	40 473	74 254	93 024
Investment	8 647	21 656	27 181
Growth rate 5.40 per cent			
Product	49 555	109 475	142 786
Consumption	40 473	83 211	108 454
Investment	8 647	24 184	31 547
Exports	8 429	13 109	15 276
Imports	7 994	11 029	12 491
Import coefficients			
Growth rate 4.65 per cent	16.1	11.3	10.2
Growth rate 5.40 per cent	16.1	10.1	8.7

so severe a reduction in the rate of expansion of consumption would be, in a region like Latin America where the aspirations of the population towards a better standard of living are being continually encouraged by a variety of means. On the other hand, if the past rate of growth of the product were maintained, *per capita* consumption could increase by 60 per cent over the whole period and 2.4 per cent yearly, although import substitution would have to be accelerated until a coefficient of 8.7 per cent were attained.

Attention may now be turned to the projection of development in the more favourable financing conditions postulated by hypothesis II. The figures corresponding to this model are given in table 8. They show that if the financing of external investment were more favourable, the import substitution problem would be somewhat eased during the first few years, but would be intensified towards the end of the period under review. It is understandable that this should be the case, because hypothesis II allows for a greater increase in imports at the beginning of the period, although not by 1975. This same circumstance accounts for the fact that according to hypothesis II, which assumes a larger inflow of foreign capital, the rate of growth of consumption would be slightly higher at the beginning and afterwards slightly lower than would be the case in the external financing conditions postulated by hypothesis I.

Table 8

Latin America : Projection of economic development up to 1975, given favourable external financing conditions

(Millions of dollars at 1950 prices)

	1954-56	1970	1975
Growth rate 4.65 per cent			
Product	49 555	97 990	122 990
Consumption	40 473	74 672	91 551
Investment	8 647	21 656	27 181
Growth rate 5.40 per cent			
Product	49 555	109 475	142 786
Consumption	40 473	83 629	106 981
Investment	8 647	24 184	31 547
Exports	8 429	13 109	15 276
Imports	7 994	11 447	11 018
Import coefficients			
Growth rate 4.65 per cent	16.1	11.7	8.9
Growth rate 5.40 per cent	16.1	10.5	7.7

Broadly speaking, for the period as a whole the differences implied by the two external investment hypotheses are not very great.

3. THE IMPORT SUBSTITUTION PROBLEM

The most important of the conclusions to be drawn from the analysis presented in the foregoing sections is that the relatively slow expansion of world demand for Latin America's traditional export commodities will make it impossible for the region to keep up the rate of development registered over the past decade, unless the import substitution process is notably accelerated. Neither the limitation of the rate of growth to a level 25 per cent below that recorded in the past, nor the granting of external financial assistance on more liberal terms than at the present time, will spare Latin America from having to substitute domestic production for imports much more intensively than during the post-war period. Consequently, for an accurate appraisal of Latin America's real prospects of maintaining its rate of growth in the future, an essential requisite is to determine how far the region can expedite the substitution process without paying too high a price, or having to introduce far-reaching institutional reforms.

Import substitution is not a simple operation with boundless horizons. A persistent substitution policy which is unaccompanied by increases in productivity may be carried so far as to entail a reduction of exports, that is, a net loss of foreign exchange. Indeed, unless it is spontaneously generated, import substitution calls for the adoption of protectionist measures which have to be gradually intensified as possibilities are exhausted in those fields where differences in productivity between the country concerned and the rest of the world are not too marked. As a result of this increasing degree of protection, internal costs rise, and affect the profitability of exports, which varies from one commodity to another. In the initial stages of the substitution process, the decrease in the profitability of exports may not be enough to cause a contraction in their volume, but it may perfectly well happen that, as further progress is made, marginal exports dwindle, and a point may be reached at which what is saved through substitution is lost on exports. Of course, the wider the margin of profitability of exports and the less the need for protection, the farther can import substitution be carried without the critical point's being reached.

The need for protection depends to a great extent on the size of the market. The smaller this is, the more limited are the possibilities of profiting by the economies deriving from large-scale production, specialization and the grouping together of productive activities. Considerable influence is also exerted by the advances already achieved in the field of import substitution.

At present there is no Latin American country with a domestic market sufficiently broad to enable it to take full advantage of modern large-scale production techniques, although in many of them conditions for specific sectors of economic activity are unquestionably favourable. Latin America's biggest country market has an annual purchasing power of about 13,200 million dollars. For some idea to be formed of the significance of this figure, it need only be mentioned that in the United States the passenger-car market alone represents a purchasing power of about 7,200 million dollars. In Latin America only three countries have a total purchasing power exceeding this figure. In the domestic markets of four others, purchasing power fluctuates between 2,000 and 5,000 million dollars yearly, while in yet another four, the corresponding figures are above 500 but below 2,000 milllion. The internal purchasing power of all the rest is less than 500 million dollars *per annum*.

Despite the limitations imposed by the size of individual country markets, import substitution has been developed to a considerable extent in some cases, especially in the three countries which have the largest markets and whose purchases account for 44 per cent of Latin America's total imports. Their average import coefficient is 11.2 per cent, which is the lowest in the whole region (see table 9).

Table 9

Latin America: Size of individual country markets, import coefficients in 1954-56 and minimum import coefficients by 1975

Average size of market a *(millions of dollars)*	*Number of countries in categories*	*Average import coefficient, 1954-56 (percentage of GNP)*	*Minimum import coefficients by 1975 (estimates)*
10 300	3	11.2	7.4
3 050	4	24.0	17.0
900	4	22.9	18.0
305	9	27.8	21.0
49 555	20	16.1	12.0

a Measured by gross internal expenditure.

These countries have by now carried substitution practically as far as is feasible in the field of consumer goods—as can be seen from the low proportion of their foreign exchange resources which they use for the purchase of goods of this type—and have begun to replace imports by domestic production in other sectors. Two countries in the second category are in a position similar to that of the first group, and the other two have done little in the way of import substitution and have a relatively wide margin of operation. One in the third group has also effected virtually all the substitutions it reasonably can in respect of consumer goods. The other three devote a substantial proportion of their foreign exchange to the purchase of consumer goods, but, as their markets are so small, it is much more difficult for them than for the countries in the second group to carry out a substitution process. Lastly, all those in the fourth group are countries with a very narrow domestic market.

By how much could the various Latin American countries reduce their respective import coefficients without ultimately prejudicing their export trade? For such a question to be answered with strict accuracy, a meticulous study of each country's comparative advantages would have to be carried out, and this would require vast resources which for the time being the ECLA secretariat does not possess. Nevertheless, to exemplify the approximate magnitude of the problems concerned, and as a working hypothesis, estimates were prepared of the lowest import coefficient which empiric knowledge of the economic structure of each individual country suggests that it might attain by 1975 (see again table 9).

It was also borne in mind in this analysis that there are some Latin American countries which are exporting barely enough to cover their external purchases of the raw materials and capital goods they need in order to maintain their level of economic activity. If some of these countries were to divert purchasing power in order to increase their imports of capital goods, they would have to cut down their supplies of raw materials, and the unemployment that might result, even if only temporary, might bring about maladjustments which would be better avoided.

In so far as the above-mentioned estimates are correct, the conclusion may be reached that, if the Latin American countries as a whole desired to keep up the annual *per capita* growth rate of 2.7 per cent registered in the past decade, they would need at least 17,200 million dollars by 1975 to purchase goods and services both from the rest of the world and within the region itself. The minimum import coefficients referred to should now be compared with those that would derive from the development hypotheses previously discussed. Thus, the more favourable of the alternative assumptions as to external financing gave a total coefficient of 7.7, as against a minimum fixed at 12.0. The group of countries with large markets would have to reduce the figure to 5.0 and in the countries with smaller markets it would have to reach 12.4, the minimum coefficients established in their cases being 7.4 and 21.0, respectively (see again table 9). The effort which this would entail will be better grasped if it is recalled that during the twenty years which elapsed between 1925-1929 and 1945-1949 the import coefficient for Latin America as a whole was reduced by 47 per cent. It would now have to be brought down by 52 per cent in the same number of years. Since in the earlier period the process started from a much higher level of imports, which meant that there were more ample opportunities for selection, and since it was then that most of the easier substitutions were effected, in the countries which had the greatest facilities for the purpose, it is obvious that one of the most serious obstacles which the economic development of Latin America will encounter in the next fifteen years is the difficulty of substituting domestic production for imports to the extent required to prevent serious bottlenecks in the balance of payments.

4. THE NEED FOR IMPORT SUBSTITUTION AND THE COMMON MARKET

It has been assumed so far that the substitution process which is essential if Latin America is to maintain its rate of growth would be effected within the setting of each country's individual market, as has been the case in the past. The analysis has led to the conclusion that the slow growth of demand for traditional export commodities and the maintenance of the rate of growth of the product formerly registered call for a substitution of domestic production for imports so rapid as to seem an impossible task, even if the external financing situation were to be very favourable.

How, then, can the Latin American countries eliminate the bottleneck created by the shortage of foreign exchange? There are in reality two ways open to them. One would consist in a considerable expansion of extra-regional exports of goods other than the traditional commodities; another would take the form of an expansion of inter-Latin American trade based on an accelerated substitution process in respect of imports from other parts of the world, but carried out at regional level and by means of more intensive trade in traditional commodities.

The first of these alternatives would require a notable change of direction in the trade policy of the developed countries, in the sense that the tariff and other restrictions which they are in the habit of applying need to give way to a system under which the Latin American countries could exploit the comparative advantages afforded by their natural resources and their geographical position. The second method would entail a gradual reshaping of the bases on which inter-Latin American trade has hitherto developed, in such a way that full advantage could be taken of the potential benefits of a broad regional market, without prejudice to the development prospects of countries with lower income levels.

These two methods are not mutually incompatible, and a wise application of both would redound to the benefit not only of Latin America but also of the more developed countries of the rest of the world. The possible effect of a reform in the trade policy of the great industrial centres merits detailed study. Only the possibilities of eliminating the bottleneck through the organization of a common market will be studied here.

The establishment of a common market would have the advantage of enabling the substitution process to be carried farther, without detriment to specialization possibilities, than would be possible within the sphere of each country's individual market. When Latin America is considered as a whole, demand for imports from outside the region falls to a level compatible with its supply of foreign exchange; and, at the same time, each of the members of the market could maintain a high coefficient of imports, although the proportion obtained from intra-regional sources would increase, in varying degrees.

There is a wide variety of institutional combinations any of which might be described as a common market.

The possible differentiations consist in the number of member countries, the quantity and kinds of goods covered by the system of preferences, the differential treatment established in recognition of the unequal levels of development of the various member countries, the time-limits agreed upon for the abolition or reduction of restrictions, etc. Each of these variations implies a specific volume of trade, a different degree of trade equilibrium and a particular combination of the rates of growth of the various member countries. It would be an exceptionally difficult task to analyse the probable consequences of every one of the alternatives in question. Hence it is more profitable to explore what possibilities there are that any one of them would ensure a more rapid rate of development for each of the member countries than it could attain without a regional market; would guarantee the survival of the system by preventing marked and persistent inter-Latin American trade disequilibria; and, lastly, would avert the serious maladjustments in the structure of production to which a sudden reduction of existing levels of protection might give rise in certain countries. The purpose of the following pages is to set forth the findings of the research undertaken to this end.

The Working Group on the Latin American Regional Market, at its sessions in Santiago (Chile) and Mexico City, held in February 1958 and February 1959 respectively, proposed a market structure which will serve as a basis for the discussions of the Trade Committee at its second session (Panama, May 1959), and which seems to comply with the three conditions mentioned. The prospects for import substitution and inter-Latin American trade have been analysed with due regard to the general principles suggested by the Group, including its recommendations that the common market should be extended to the whole of Latin America and to all kinds of goods. It has not been possible, nor, indeed, does it seem advisable, to make a study of what might be the temporary or permanent effects of any measures adopted with a view to the gradual establishment of the market. All estimates therefore relate to 1975. Once the interested countries adopt a definitive structure, the secretariat will be able to make a more detailed analysis of its possible repercussions, if this is deemed necessary and the requisite means are made available.

On the basis of the lowest import coefficient which it was estimated that each of the Latin American countries could attain, it was possible to determine the minimum amount of foreign exchange that each would need if the region's rate of development were to be maintained at the annual *per capita* figure of 2.7 per cent. Comparison of these minimum foreign exchange requirements with the projection of the resources that are likely to be available for extra-regional imports gave, by subtraction, the amount that each country would have to import from within the region. The intra-regional import coefficients for each country obtained by this method were then modified to make them compatible with a reasonably balanced reciprocal trade.[11] In reality, from a purely national standpoint, some countries could reduce their import coefficient below the limits adopted in the present study, but this would lead to inter-Latin American trade disequilibria that would be difficult to remedy. For example, a particular country might import fewer agricultural commodities or fewer passenger cars from within Latin America itself than the estimates presented here suggest, but other countries' balance with the region, and, indirectly, its own exports, would be adversely affected in consequence.

According to the estimates prepared—the value of which, it must again be stressed, is primarily illustrative—Latin America's aggregate import coefficient might be reduced by 1975 to only 12 per cent of the region's gross products. Since the amount of foreign exchange available for extra-regional imports is estimated at 8,900 million dollars, the corresponding import coefficient would be 6.2 per cent. That of inter-Latin American imports, on the other hand, which at present stands at 1.5 per cent, would rise to 5.8.

Given the fulfilment of the hypotheses adopted here as to the growth of income and import substitution, the volume of inter-Latin American trade, measured by imports, would increase from the current figure of 756 million dollars to about 8,300 million by 1975. This would mean that Latin America itself supplied 48 per cent of its own import requirements.

5. Probable demand for selected non-agricultural commodities and groups of commodities in Latin America

So great an increment in each country's imports from within the region is inconceivable without a proportionate expansion of inter-Latin American exports. For Latin America as a whole exports and imports can actually differ only by the amount of freight and insurance charges payable outside the region. The situation is different for the separate countries, which may have positive or negative balances with the rest of Latin America. However, these balances should not exceed certain limits, for if they do so, financing problems arise which ultimately conduce to the restriction of trade.

Which types of goods might serve as a basis for the expansion of intra-regional trade? Obviously, transactions in the commodities currently accounting for the bulk of trade cannot be expected to attain a volume more than ten times greater, when Latin America's gross product will not even be trebled. Demand for almost all these commodities is characterized by a low elasticity coefficient. The question raised is of interest not only from the standpoint of the feasibility of trade objectives, but also because it leads on to the consideration of the fields in which domestic production might best be substituted for imports from outside the region.

If the problem is envisaged strictly from the angle of stabilization of the balance of payments with the rest of the world, the imported goods which should be given the highest priority on a substitution programme are those combining the following two characteristics: a high

[11] See section IV for a discussion of the problem of regional equilibrium.

coefficient of elasticity of demand and minimum direct or indirect requirements of imported inputs. On the other hand, if attention is focused on the optimum use of available production resources, the highest priority should be given to those goods which make the greatest contribution per unit of investment to the gross national product. This contribution largely depends upon the natural resources available and the size of the market. The influence of the latter makes itself felt through more effective exploitation of economies of scale and those permitted by industrial agglomerates, since the bigger the market the greater will these economies be.

The two characteristics mentioned are not always to be found combined in goods of the same type. There may be some which have a high coefficient of elasticity and of imported inputs, and, at the same time, their social profitability may be low or their production uneconomic. The bigger the market in which the import substitution process is carried out, the less possibility of conflict is there likely to be.

In the specific case of Latin America, it is perhaps in the machinery and equipment group that the dual criteria referred to, based on balance-of-payments considerations and economic expediency, may come into play. Demand for goods of this type grows very fast when the development process is accelerated, because over the long term other productive resources are replaced by machinery and equipment, and because, as the experience of several countries shows, there is a tendency for the product-capital ratio to decline. Furthermore, Latin America does not currently produce enough to satisfy more than 10 per cent of the region's present demand for goods in this category, so that the import content in gross internal investment is much higher than in the case of consumer goods, even if the imported intermediate products used in the domestic manufacture of capital goods and consumer goods are taken into account. A comparison of available statistics on finished goods shows that they represent 23 per cent of domestic investment, whereas their share in total consumption is 4 per cent. Hence it can be deduced that the acceleration of development, which implies an increase in the investment coefficient, creates pressure on the balance of payments.

In a small market, the disadvantages deriving from low productivity which would attach to the investment of resources in production of machinery and equipment are not offset by the balance-of-payments advantages which import substitution in this field might bring in its train. Partly for this reason, the Latin American countries began by substituting domestic production for consumer rather than for capital goods. But if a common market were established, the situation would be entirely different.

It must not be forgotten that, if Latin America develops in the setting of a common market, by 1975 it will have a market as large as that at present constituted by Belgium, Denmark, the Federal Republic of Germany, France, Netherlands, Norway, Sweden and the United Kingdom in the aggregate, and, probably, a wider variety of natural resources than this group of countries.

Another consideration must be taken into account when the relative advantages of substituting domestic production for capital goods or for other types of commodity are studied, namely, the stability of the rate of capital accumulation. If a country has no capital goods industry and its exports fail to grow as rapidly as they should, the technical possibility of capital accumulation is linked to the possibility of changing the structure of imports. Such a change may consist in the assignment of a smaller proportion either to consumer goods, or to intermediate products, or to capital goods. If the first alternative is chosen, domestic production of consumer goods will have to develop faster than that of the other groups of commodities. In the last extreme, no consumer good will be imported, nor will the raw materials for its manufacture, but all capital goods will be purchased abroad, so that the possibility of capital formation will be inseparably bound up with the evolution of exports. On the other hand, if it is thought preferable to earmark a steadily decreasing proportion of foreign exchange for the purchase of capital goods and their raw materials, domestic production of such goods will have to expand more intensively than that of other items if a given rate of development is to be maintained. A large proportion of the country's import trade will then be diverted towards consumer goods, and consequently, even if exports contract and balance-of-payments equilibrium is maintained, it will be possible for the rate of capital accumulation to be kept up or increased at will, since it no longer depends on exports. Hence, the adoption of a decision to import either a larger proportion of consumer goods or a larger proportion of capital goods affects the stability of the rate of capital accumulation.

Although this latter is a factor to be borne in mind in the determination of import substitution policy, it cannot constitute the sole criterion. Otherwise economic expediency or the possibility of stabilizing the balance of payments might be seriously prejudiced. All three of these factors must be taken into account. Whether at a given moment priority should be given to one or to another will largely depend upon the economic expediency of substitution in respect of the various types of goods imported, and on the degree of instability of exports. As a general rule, the smaller a country's market and the more stable its exports, the better-advised it will be to substitute domestic production for consumer goods. The larger its market and the less stable its exports, the more suitable may it be for the country concerned to create its own basic capital industry. Of course, the instability of exports cannot be adopted as a substitution criterion if the market is very small indeed, since in that case no alternative exists. The formation of regional markets therefore has the merit of broadening the market, endowing exports with greater stability by means of diversification, and, similarly, stabilizing the rate of capital accumulation by facilitating the creation of capital goods industries. It thus reduces the conflicts arising from the need to take into consideration various criteria that are not always compatible, and helps to promote more rapid and steadier development.

Thanks to the general knowledge of economic development in a wide variety of countries which past experience affords, an *a priori* selection can be made of those goods for which demand increases rapidly. Besides machinery and equipment, of which mention has already been made, others in this category are fuel, metals and intermediate metal products, chemicals and chemical products, pulp and paper and durable consumer goods. For this reason, and because only a small proportion of Latin America's requirements of goods of this type is supplied from regional sources, they were selected as subjects for the study of probable increments in demand. On account of the limited resources available for research the list had to be confined, in the case of metals, to steel and copper—raw and semi-manufactured—and, in that of durable consumer goods, to passenger cars. It was extended to include those agricultural commodities which at the present time account for four-fifths of intra-regional trade in such goods, and cotton textiles, which are also fairly important. Stress must be laid on the fact that all estimates are provisional and subject to revision. Nevertheless, it will be useful to form some idea of the approximate magnitude which demand for such commodities might attain, and that will help to place common market prospects in truer perspective.

The increment in demand that may be registered for the commodities and groups of commodities analysed are so great that it is idle to think of continuing to meet them with supplies from outside Latin America in the same proportion as at present. To do so would require about 20,000 million dollars by 1975, even if no allowance is made for agricultural commodities and those excluded from the analysis, which in the aggregate absorbed 30 per cent of extra-regional imports in 1954-1956. On the other hand, if the whole of the region were converted into a single market, the volume of demand would be such as to ensure that the advantages of large-scale production could be enjoyed with respect to all those goods—machinery and equipment, motor vehicles, steel and semi-manufactured steel products, copper and semi-manufactured copper products and chemicals—whose production costs would be drastically reduced if the scale of production were increased.

Despite the huge size of its market, several factors, including the structure of its resources, the progress of technique—which for many years may possibly be more rapid in the more developed countries—and the need to sell production surpluses abroad, will induce Latin America to maintain as substantial a volume of extra-regional as of intra-regional trade. Nevertheless, a very considerable change in the composition of its imports from the rest of the world will be bound to take place.

Table 10 illustrates the kind of change that might be expected in view of the data currently available, although in the last analysis this will depend upon the structure that is finally given to the common market and on the substitution policy to which it leads.

Table 10

Latin America: Composition of extra-regional imports in 1954-56, and projections for 1975

(Percentages of total)

	1954-56	*1975*
Machinery and equipment	32.5	41.6
Passenger cars	3.9	10.9
Steel and semi-manufactured steel products	9.8	10.4
Copper and semi-manufactured copper products	0.7	1.0
Fuels	6.6	5.9
Chemicals and chemical products	9.8	10.0
Paper and board	3.2	2.4
Cotton yarn and textiles	3.9	—
Staple agricultural commodities	4.4	2.5
Miscellaneous	25.2	15.3
TOTAL	*100.0*	*100.0*

As table 10 shows, Latin America would allocate to machinery and equipment and to passenger cars a much larger proportion of its extra-regional purchases than at present. On the other hand, no textiles and cotton would be imported, and a smaller proportion would be assigned to fuels, paper and board, the group of selected agricultural commodities and other goods. Such a change can be justified inasmuch as, if the satisfaction of machinery and equipment requirements is to be given the highest priority, the foreign exchange sufficing to cover the difference between domestic production and total requirements will have to be used for this purpose. The smaller the proportion of foreign exchange which it is considered desirable to spend on the item under consideration, the greater will have to be the increments in the region's own production. For example, if it is desired to earmark 32 per cent, as at present, for imports of machinery and equipment, production in Latin America itself would have to increase thirty-one times over. This expansion seems too great, for it would probably mean that Latin America had to begin producing certain equipment entailing highly advanced techniques, and, above all, it might in addition give rise to disequilibria in intra-regional trade. Not all the Latin American countries are in fact equally favourably placed for the rapid development of production of machinery. If those possessing the necessary resources substitute domestic production for more than a certain amount of imports, with the aim of trading their production surpluses with other Latin American countries, the latter, if the balance of trade is to be maintained, will have to be in a position to increase their exports to the countries supplying machinery, and it may prove impossible to expand them beyond given limits. To sum up, there are two fundamental considerations which must be taken into account in determining how far the region should aim at self-sufficiency. The first is the economic expediency of import substitution, and the second is the need to secure a reasonably balanced intra-regional trade. For example, in the case of passenger cars the coefficient of supplies from within the region might reach a higher figure than in that of machinery, because it need not be

Table 11

Latin America : Projection of sources of supply of selected products, 1975

Commodity	Unit	Total demand	Source of supply: Intra-regional	Source of supply: Extra-regional	Intra-regional supplies as percentage of total
Machinery and equipment	Million dollars . . .	9 122	5 435	3 687	60
Passenger cars	Unit	1 790	7 308	482	73
Steel and semi-manufactured steel products	Thousand tons . . .	37 600	32 300	5 300	86
Copper and semi-manufactured copper products	Thousand tons . . .	540	443	97	82
Petroleum and derivatives	Million tons . . .	201	193	8	96
Chemicals and chemical products	Million dollars . . .	8 155	7 265	890	89
Paper and board	Million dollars . . .	1 545	1 331	214	86
Cotton yarn and textiles	Thousand tons . . .	1 655	1 655	—	100
Staple agricultural commodities	Million dollars . . .	13 500	13 280	220	98

so strictly governed by the criterion of economic expediency. These two considerations were particularly borne in mind in the calculation of the probable coefficients of intra-regional supplies shown in table 11.

(a) *Machinery and equipment*

If Latin America's gross product is to maintain its post-war rate of growth, gross fixed investment will have to increase from the 8,650 million dollars yearly registered in 1954-1956 to 31,550 million in 1975. This development exceeds that of the product because the product-capital ratio, which in the last few years has been about 0.45, is likely to fall to 0.39 by 1975. Such a reduction would reflect the more rapid development of production in those sectors which normally show a product-capital ratio lower than the average for the economy, and this in turn would result from the substitution of domestic manufactures for imports of goods with more complex production techniques than those replaced in the past. Furthermore, Latin America is at present handicapped by a great shortage of basic social capital, which will have to be remedied. It is common knowledge that investment of this type shows a low product-capital ratio. For all those reasons, the relationship of gross fixed investments to the gross product would have to rise from the current figure of 17.4 per cent to 22.1 per cent by 1975.

Of total gross fixed investment, about 26 per cent is made up of machinery and equipment.[12] An assessment in terms of c.i.f. values shows that today, out of every 100 dollars allocated to gross fixed investment, Latin America needs to spend about 23 dollars on imports of goods of this type, even if no account is taken of the indirect repercussions of investment on demand for imports. If in the future there were to be no change in the percentages given for machinery and equipment in relation to total investment and for the proportion imported, by 1975 the region would require about 8,200 million dollars' worth of such goods as against 2,200 million dollars' worth at the present time, and imports would amount to 7,300 million dollars. In actual fact, requirements are more likely to reach about 9,500 million dollars, because, with the passage of time, the proportion of total investment represented by machinery will be bound to increase considerably.[13] In such an event, imports would have to rise to about 8,600 million dollars annually by the end of the period.

The foreign exchange that would be available for extra-regional imports is estimated at about 8,900 million dollars, so that unless Latin America were to find other sources of supplies of machinery and equipment, it would be compelled to earmark about 97 per cent of the foreign exchange in question for purchases of goods of that type. This would obviously be impossible, as a very narrow margin of foreign exchange would be left for imports of goods that could not be replaced by domestic production.

From analysis of the Latin American countries' past experience, study of their prospects of substituting domestic production for other goods—especially fuels, certain raw materials and intermediate and finished consumer goods—and consideration of the size of the individual countries' markets, an opinion can be formed as to the proportion of the foreign exchange available for extra-regional imports which each one could allocate to purchases of machinery and equipment. This provides a basis on which to estimate the amount that Latin America as a whole would have to obtain from other sources, such as intra-regional production and trade (see table 12). According to this estimate, Latin America's production of machinery and equipment would have to expand at an annual rate of 18 per cent, so that the increment achieved by 1975 would be equivalent to twenty-seven times its current volume.

Effective demand for machinery and equipment, including imports and domestic production, is at present

[12] The proportion rises to 44 per cent if expenditure on installation and repairs and marketing costs are added to the value of production.

[13] This proportion depends upon the composition of investment by sectors. The greater the amount allocated to the development of manufacturing industry, the larger will be the proportion corresponding to machinery.

Table 12

Latin America: Probable production requirements and possibilities for extra-regional imports of machinery and equipment, up to 1975

(Millions of dollars at 1950 prices)

Annual requirements of machinery and equipment . .	9 122
Maximum amount that could be imported from outside the region	3 687
Amount would have to be produced within the region	5 435
Estimated current production	200

constituted as follows: machinery for agricultural use, 13 per cent; machinery and equipment for industry, energy and mining, 59 per cent; and transport equipment (excluding private passenger cars), 28 per cent. By 1975 these proportions will probably be altered, the share of machinery for agriculture falling to 9 per cent and that of transport equipment to 22 per cent. The decrease in the relative importance of these two groups is due to the fact that in the manufacturing, mining and energy sectors production will probably increase much more rapidly than in agriculture and transport. For illustrative purposes, table 13 was prepared to show the probable composition of machinery and equipment by 1975 and the importance of the various sources of supply.

(b) *Passenger cars*

It has been estimated that the total number of passenger cars in Latin America in 1955 was 1,617,000. Some 80 per cent of these were in Argentina, Brazil, Cuba, Mexico and Venezuela. Total imports that year, including chassis for assembly shops, amounted to 115,000 vehicles—not enough to meet replacement needs.

The potential demand for cars is much greater than annual import figures suggest, but the foreign exchange difficulties of Latin America's two main consumers make it difficult to satisfy this demand. If this barrier could be removed, both in these countries and in others which are experiencing the same difficulty, annual car consumption would probably rise to about 1.8 million units in 1975—fifteen times the present figure. Of that total, some 900,000 would represent replacement needs and the remainder the demand for an increase in parks.

The estimate of demand have been made on the basis of the correlations observable between, on the one hand, *per capita* car parks and on the other, the level of income, the density of the population and the size of the market, the latter measured by total gross product. International comparisons suggest that the higher the *per capita* income and the larger the market, the greater the number of cars per inhabitant. On the other hand the higher the density of the population the smaller the number of vehicles per inhabitant. The Union of South Africa and Australia, for example, record a much higher figure than European countries with similar income levels. The projection worked out for Latin America would give the region thirty-nine vehicles per thousand inhabitants and eighty-one per million dollars of income, which are intermediate figures between those recorded in the high- and low-density countries and very similar to those recorded for the Union of South Africa in 1953 (see figures IV and V).

Table 13

Latin America: Composition of requirements of machinery and equipment in 1954-56, and projections for 1975

(Millions of dollars at 1950 prices)

	1954-56			*1975*		
	Total	*Imported from other regions*	*Produced within the region* [a]	*Total*	*Imported from other regions*	*Produced within the region*
Machinery and equipment for agriculture	294.4	244.4	50.0	864 [c]	298	566
Machinery and equipment for industry	1 304.8	1 234.8	70.0	6 198 [d]	2 585	3 613
Machinery and equipment for transport	623.0	543.0	80.0	2 060 [e]	804	1 256
TOTAL	*2 222.2*	*2 022.2*	*200.0*	*9 122*	*3 678*	*5 435* [b]

a Rough estimates.

b The value of Latin American production should actually amount to 5 168 million dollars, but 267 million would have to be added for freight and insurance costs on the proportion of production traded within the region.

c Estimates based on current stocks, on introducing mechanized farming into new areas and on replacement requirements. A calculation based on the probable expansion of the sector's production works out at 650 million dollars, if the product-capital ratio does not alter.

d Residual estimate.

e In accordance with the probable rate of growth of the product generated in the sector, which it is assumed will be 3.3 times greater.

Figure IV

Per capita **gross product and number of passenger cars per thousand inhabitants**

PASSENGER CARS PER THOUSAND INHABITANTS

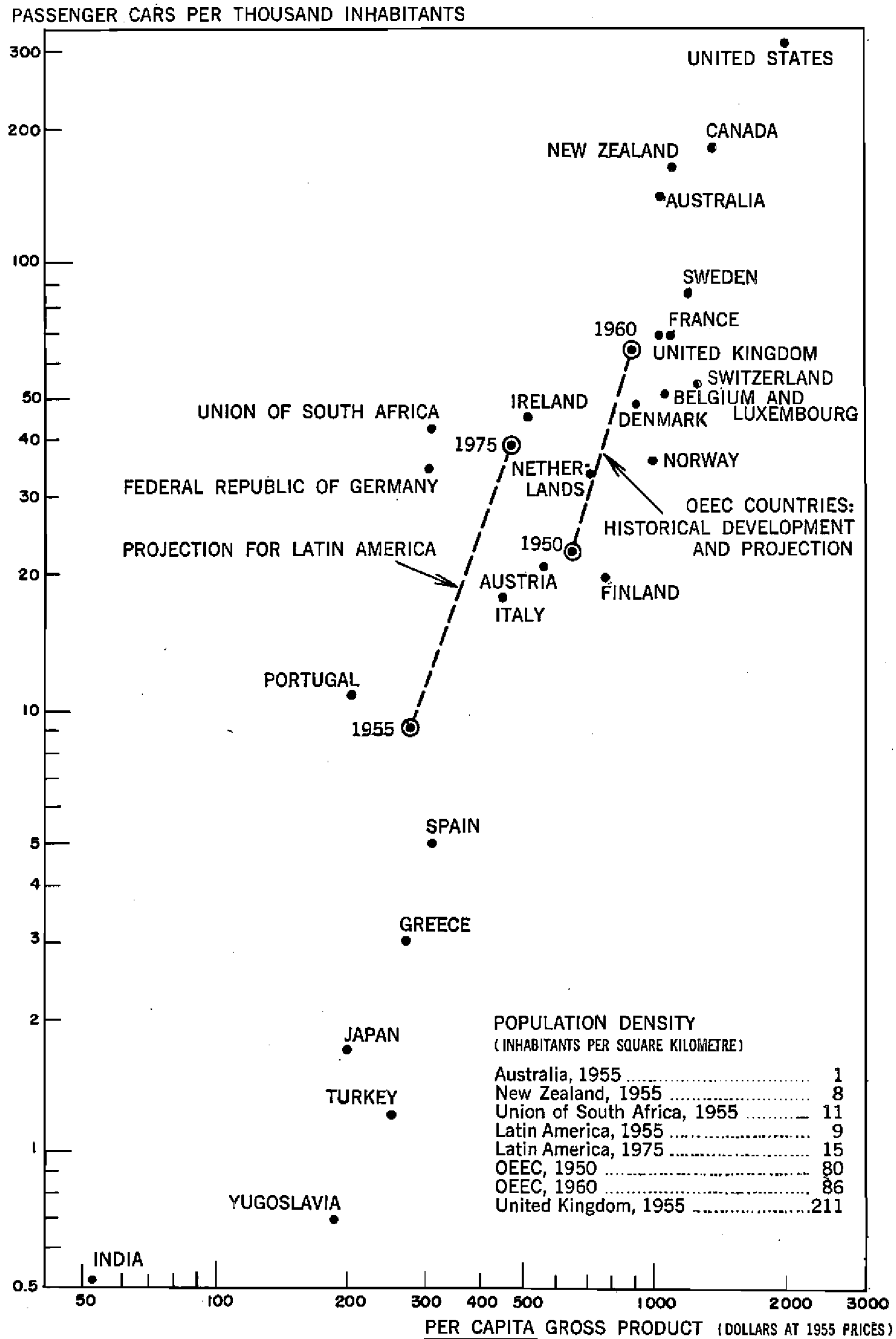
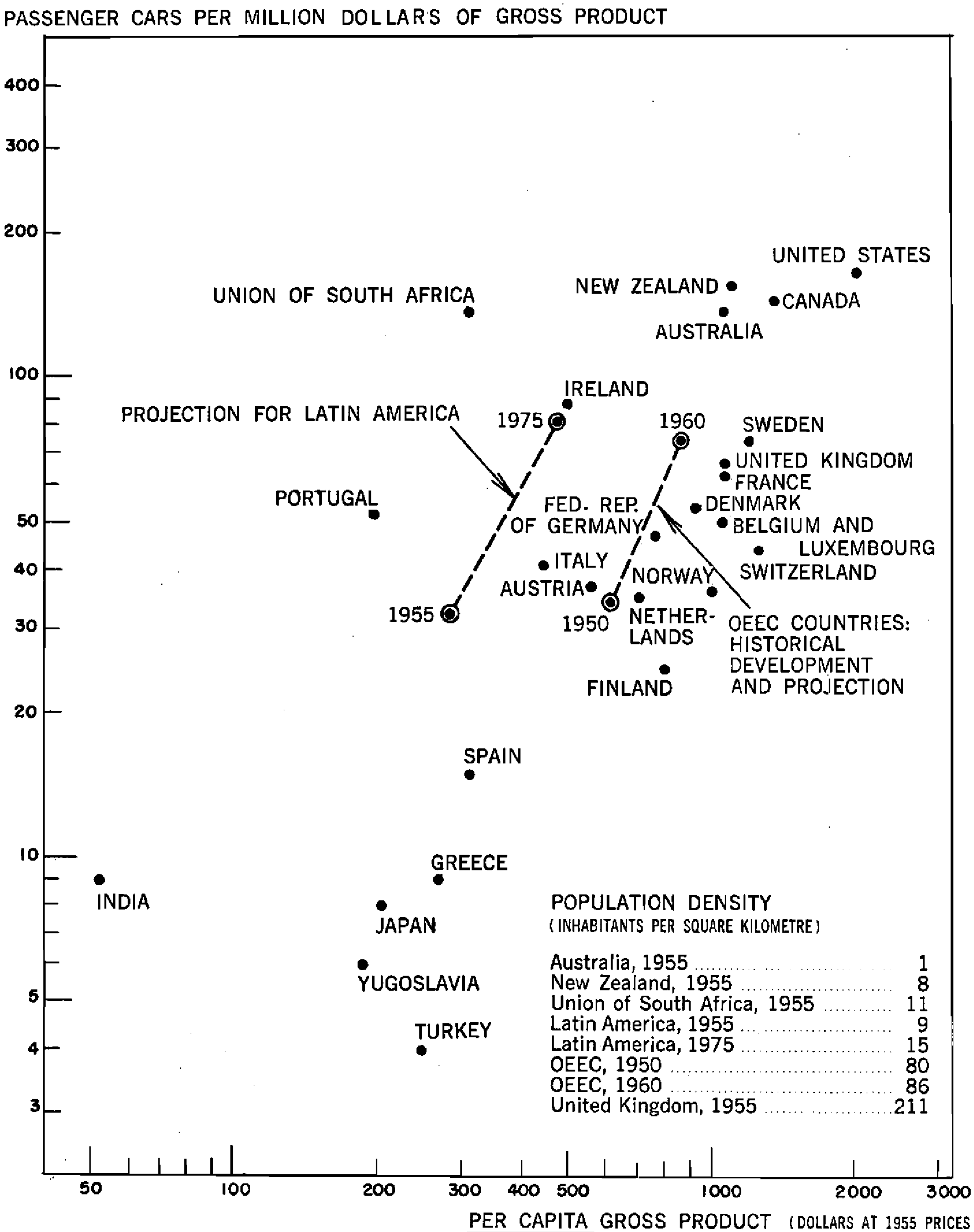


Figure V

Per capita **gross product and number of passenger cars per million dollars of gross product**

LOGARITHMIC SCALE



It would be quite impossible for Latin America to meet this demand in its entirety from imports since that would require some 3,600 million dollars (see table 14). At present 3.4 per cent of the foreign currency available is used for the importation of cars. With a much larger market the demand for special types of cars would rapidly increase, and it has therefore been assumed here that by 1975 imports under this heading will absorb 11 per cent of the foreign exchange available for purchases from outside the region, this amount covering only 27 per cent of total needs.

Table 14

Latin America: Annual consumption, production and imports of passenger cars, 1955, and projections for 1975

	Thousands of units	Value (millions of dollars at 1950 prices)	Thousands of units	Value (millions of dollars at 1950 prices) [a]
Consumption	115	242	1 790	3 580
Production [b]	—	—	1 308	2 616
Extra-regional imports	115	242	482	964

[a] Valued at 2 000 dollars per unit at c.i.f. prices.
[b] Excluding value added on assembly lines.

(c) *Steel and semi-finished steel products*

The annual average consumption of steel in Latin America in 1955-56 was 6.6 million tons in terms of ingots, and annual production reached a figure of 2.6 million tons, representing 39 per cent of consumption. There is no strict correlation between steel consumption and *per capita* product. This is due to the fact that steel requirements are closely linked to the development of certain activities such as the metal-transforming industry and steel mills themselves. Hence, for example, the fact that whereas apparent consumption in the United Kingdom, which has a net *per capita* income of 1,050 dollars, was 367 kilogrammes in 1955, that of New Zealand, with a net *per capita* income of 1,100 dollars, was only 208 kilogrammes.

Account should, however, be taken of the combined effect which the probable changes in the structure of production and increases in incomes could have on the demand for steel in Latin America, taking as a model the relationships which may be established by comparing, in a great number of countries, the consumption of steel, the size of the market, the structure of production and the level of *per capita* income. By this means it has been deduced that consumption in the region will probably be 37.6 million tons by 1975 (see figure VI).

It would be absolutely impossible to supply from outside the region the same proportion as at present of the demand projected for 1975 since it would then be necessary to use for that purpose alone about 45 per cent of the foreign currency which will be available for imports from that origin at that date.

On the other hand, an analysis of the production possibilities of each country justifies the assumption that Latin America as a whole could reach a production level of some 32.3 million tons by 1975, that is, a little more than the United Kingdom is expected to produce in 1960 and 10 per cent less than the volume projected for the countries of the Far East for the same year. In order that this volume may be reached, the annual rate of increase in production should be about 13 per cent, which does not appear impossible. It is enough to note that Argentina's new steel plant will begin producing 700,000 tons in the coming year and that a 1,200,000-ton plant is under construction in Venezuela.

If Latin America succeeds in increasing its production at the rate indicated, it will be able to meet 86 per cent of its needs and will have to spend about 900 million dollars on imports from outside the area—mainly on non-current steels.

(d) *Copper and semi-finished copper products*

The consumption of copper and its intermediate products in Latin America is very low, amounting to only 70,000 tons, or 0.4 kilogrammes per inhabitant annually. Consumption in the industrialized countries is more than 1.5 kilogrammes and in some, such as the United States and the United Kingdom, more than 7 kilogrammes.

The evidence suggests that there is a close relationship between the consumption of steel and that of copper. A comparison of the figures for twenty-six countries gives an average ratio of 1.2 kilogrammes of copper to 100 of steel. The proportion is smaller in the less industrialized countries because they usually produce insignificant quantities of durable consumer goods, for which steel is chiefly used. It is, on the other hand, a little higher than the average in the highly industrialized countries and in those which produce copper (see figure VII).

On the basis of these ratios and of the steel projection worked out, it has been estimated that by 1975 copper consumption in Latin America will reach a total of 540,000 tons a year, that is, 1.83 kilogrammes per inhabitant.

There is no doubt that, technically speaking, Latin America could meet all its needs in copper and intermediate copper products, but there are economic reasons for thinking that it will have to import about 20 per cent of its total needs, consisting of more highly processed products, from outside the area.

The proportion of foreign exchange available for imports from outside the region which will have to be spent for this purpose should be about the same as at present (about 1 per cent).

(e) *Fuels*

Petroleum and its derivatives and coal are the only fuels in Latin America's international trade, and petro-

Figure VI

Per capita **gross product and apparent consumption of steel, 1955**

LOGARITHMIC SCALE

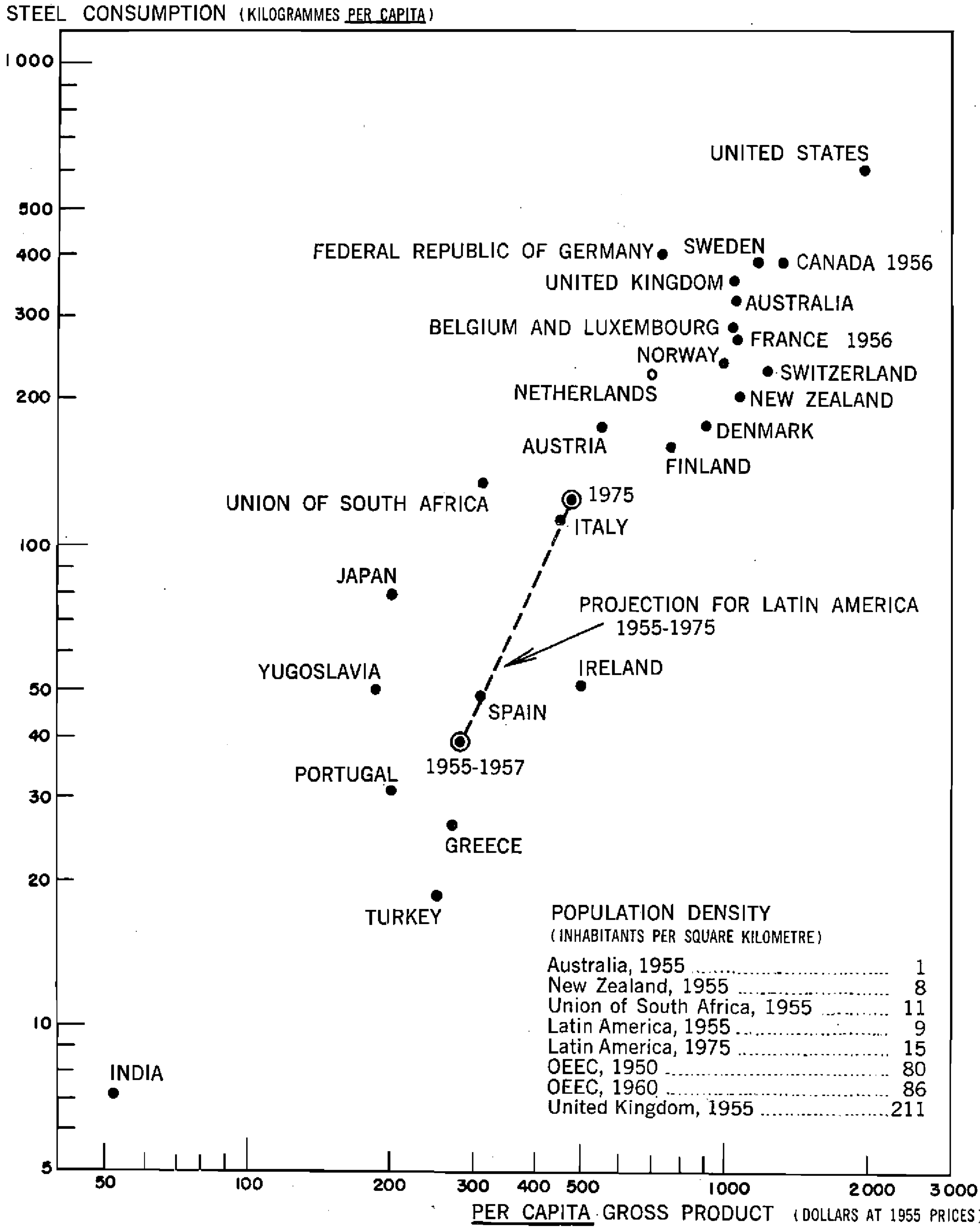
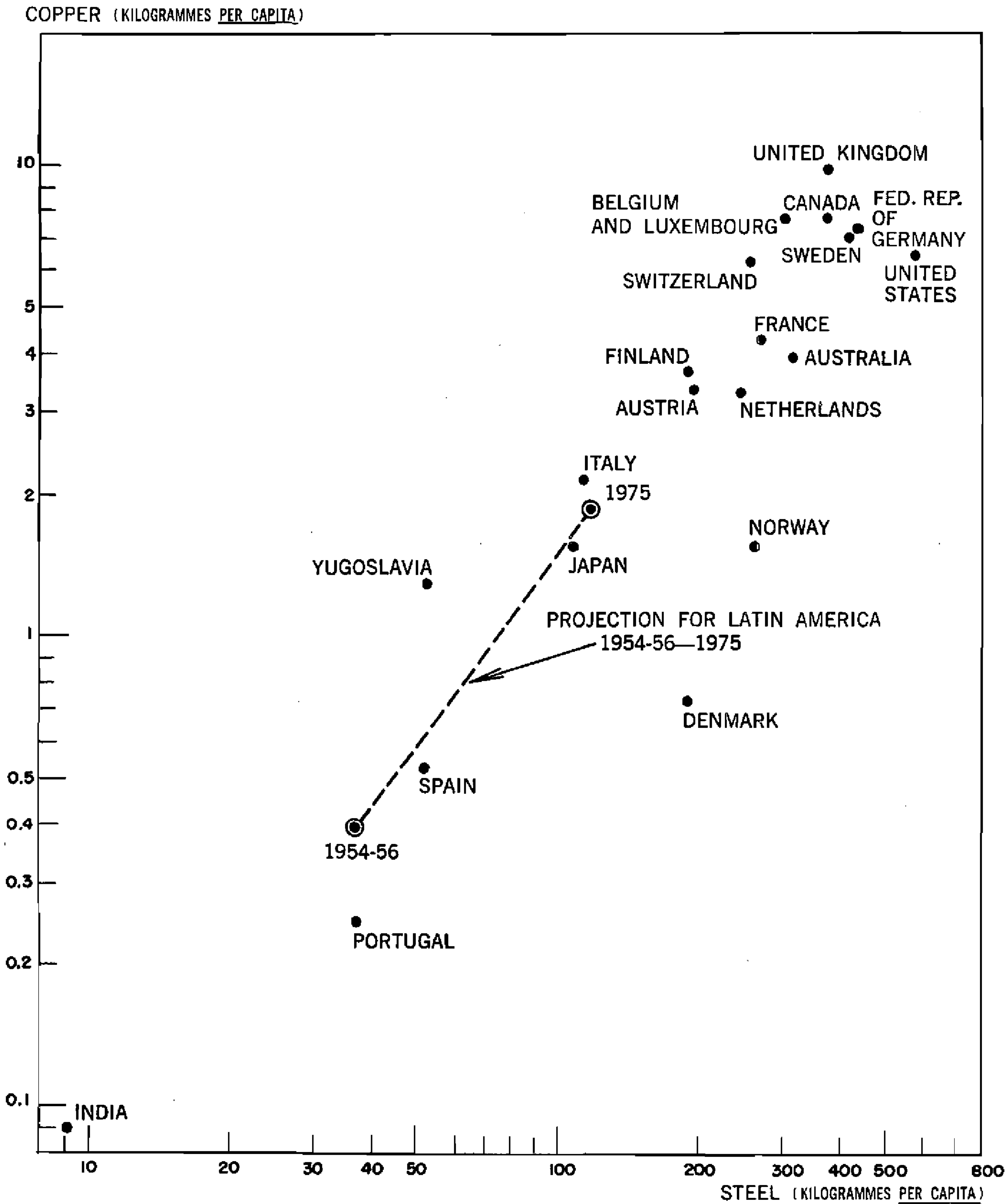


Figure VII

Relationship between apparent *per capita* consumption of copper and steel (Average 1955-1957)

LOGARITHMIC SCALE



leum constitutes about 99 per cent of the value of this trade.

In order to make a fairly reliable projection of petroleum demand in 1975 it would have been necessary to consider the demand for energy from all sources and the substitution possibilities of them all. Since that was not possible, a comparison was instead made of the relationship between consumption and *per capita* income in various countries with different income levels and consumption per 100 dollars of gross product, the latter in order to take into account the influence of the economic structure and the size of the market. On the basis of these relationships and of the historical experience of the countries in Latin America, it is estimated that by 1975 the consumption of petroleum and its derivatives which was 47 million tons (270 kilogrammes per inhabitant) in 1955 will rise to some 201 million tons (683 kilogrammes per inhabitant) by 1975.

It seems possible that Latin America could meet about 96 per cent of the total demand for all petroleum products. The remaining 8 million tons would be made up of special products and the imports which some countries would have to make from outside the region for reasons connected with their international trade.

(f) *Chemical products*

Latin America's annual consumption of chemical products in 1955 was estimated at a value of some 2,300 million dollars, about 25 per cent of this amount being imported. Since inter-Latin American trade is very slight, the 570 million dollars' worth of imports came almost entirely from outside the area.

Owing to the complexity of the chemical industry and to the great variety of the uses to which its products are put, it is not possible to project the demand for them by simple methods. The rough estimate given in this study is based on special research being made by the secretariat into the possibility of promoting the production of some basic chemical products, and also on the data contained in the study on the development of Argentina's economy.[14] On the basis of this information, together with an analysis of the relationship which exists in various developed countries between the increase in the output of this sector and increases in income, it has been estimated that the value of consumption will rise from 45.4 dollars per 1,000 dollars' total gross product in 1955 to 56.7 dollars in 1975. Total consumption would thus amount to some 8,200 million dollars that year.

It would be possible for Latin America to reduce the proportion of its supplies from outside the area from 25 to about 11 per cent. This would mean expanding regional production fourfold: from 1,700 to 7,200 million dollars.

(g) *Paper and paperboard*

In 1955, Latin America consumed about 370 million dollars' worth of paper and paperboard, some 38 per cent of it supplied by imports from outside the region. It is expected that by 1975 consumption will have increased more than four times, reaching a figure of some 1,540 million dollars. This reflects the high income-elasticity of the demand for these products which is borne out in numerous studies.[15]

From the point of view of practical conditions, all the Latin American countries could produce this type of goods, but only two seem likely to become net exporters. It is probable, however, that a number of countries could export small quantities, but these are not taken into account in this study. The countries with insufficient production will probably have to meet between 20 and 30 per cent of their annual consumption from imports, which would thus reach a figure of 260 million dollars by 1975, as compared with 143 million at present. It is estimated that the net exporter countries of the region itself will be able to supply about 125 million of this total, so that the value of the imports from outside the area should remain at approximately the same level as at present, and the value of regional production should increase from 230 to 1,300 million dollars.

(h) *Cotton textiles and yarns*

Regional consumption of cotton fibre of all kinds is at present 634,000 tons. Since the non-industrial consumption of cotton fibre is very small, it can be assumed that this figure reflects the present effective demand for cotton textiles. The surveys made in different Latin American countries establish the average income-elasticity of the demand for these products at 0.8, and on the basis of this figure consumption in 1975 has been estimated at 1,655,000 tons.

Latin America is at present a net importer of such products. With a common market it should not be difficult for the region to meet its own needs in economic conditions.

6. THE SPECIAL CASE OF AGRICULTURAL COMMODITIES

Agricultural commodities form the basis of inter-Latin American trade, exports of them representing about two-thirds of the value of all the region's exports. It is natural that this should be so during the present stage of development in which trade is based on complementarity rather than on competition. Unlike the developed countries, which exchange among themselves specialized products of the same kind—for instance, precision machinery for heavy machinery—in Latin America tropical products are exchanged for temperate-zone products.

Regional trade flows in these items will undoubtedly continue to be sizeable in the future for many of them —such as bananas and coffee—cannot be produced at

[14] " El desarrollo económico de la Argentina " (E/CN.12/429/Rev.1).

[15] *Possibilities for the development of the pulp and paper industry in Latin America* (E/CN.12/294/Rev.2), *Pulp and paper prospects in Latin America* (E/CN.12/361/Rev.1) and *Chile, potential pulp and paper exporter* (E/CN.12/424/Rev.1).

any price in some of the southern countries and as regards others—such as wheat—there are serious limitations to their production in the tropical countries. There is no doubt either than their relative volume will decline since the income-elasticity of the demand for these commodities is, generally speaking, below unity. It has already been seen that the regional demand for this group of commodities will multiply 2.2 times by 1975, much less than that of the products considered earlier. Yet in absolute terms the growth is by no means negligible, for in most cases it will mean a doubling and in some other cases—cotton, pork and dairy produce, for instance—almost a tripling of supplies. Table 15 gives estimates of the increase in demand for selected products which may be expected if the assumptions made here about development and population growth prove correct.

Table 15

Latin America: Apparent consumption of selected agricultural commodities, 1954-56, and projections for 1975

(*Thousands of tons*)

Commodity	*Apparent consumption*		*Total growth coefficient*	
	1954-56	*1975*	*Total*	*Per unit of GNP*
Wheat	10 303	20 256	1.97	0.68
Rice	5 304	9 950	1.88	0.65
Cotton fibre	587	1 655	2.82	0.98
Sugar	5 077	10 593	2.09	0.73
Coffee	528	1 112	2.11	0.73
Cacao	114	265	2.32	0.81
Bananas	7 712	13 565	1.76	0.61
Beef	4 337	8 862	2.04	0.71
Pork	1 573	4 257	2.71	0.94
Mutton	299	476	1.59	0.55
Milk and milk products	17 200	45 500	2.65	0.92

What, then, are the possibilities of the region as a whole being able to meet its needs in these commodities by 1975? Latin America is at present a net exporter of all the products in question, with the exception of dairy produce and rice in certain years. Despite the expected increases in demand, the region's physical productive resources are such that it will assuredly continue to be a net exporter of the same products as at present.

It may also be said that, unless very far-reaching changes are made in production techniques, most of the tropical countries with insufficient supplies of temperate-zone products will continue to suffer a deficit, whatever efforts they make to increase their domestic production of them. The same may be said of the southern countries which do not produce enough tropical items. The deficits of both groups of countries may be met from the production of other Latin American countries. It is possible, however, that, owing to freight costs and trade relationships with other areas, the region will continue to purchase a certain quantity of such products outside the area (see table 16).

It has therefore been assumed in this study that only the increases in the demand for temperate-zone commodities will be met from Latin America itself. On the other hand, as these arguments do not apply with equal force to tropical products, it has been assumed that the region will not in the future import them.

The extent to which each country's consumer needs—discounting the quantities which will come from outside the area—are met from domestic production or from imports from other Latin American countries will depend greatly on the trade agreements signed. In the

Table 16

Latin America: Total consumption of selected commodities and proportion of extra-regional supplies, 1954-56, and projections for 1975

Commodity	*1954-56*		*1975*	
	Total apparent consumption (thousands of tons)	*Percentage of consumption covered by extraregional imports*	*Total apparent consumption (thousands of tons)*	*Percentage of consumption covered by extraregional imports*
Wheat	10 303	15.3	20 256	7.8
Rice	5 304	3.4	9 950	—
Cacao	114	0.4	265	—
Sugar	5 077	0.4	10 593	—
Beef	4 337	0.6	8 862	0.3
Mutton	299	1.2	476	—
Pork	1 573	—	4 257	—
Cotton fibre	587	3.6	1 655	—
Milk and milk products	17 200	3.9	45 500	1.3
Bananas	7 712	—	13 565	—
Coffee	528	—	1 112	—

section on the balance of inter-Latin American trade a study will be made of the possible volume of trade flows on the basis of two hypotheses concerning degrees of protection.[16]

In view of the interest attaching to the problems of agricultural supplies and trade, it is worth considering in greater detail the position and prospects of some of the main commodities included in the list of projections.

(a) *Wheat and wheat flour*

As regards wheat and wheat flour between 1948-1950 and 1954-1956, total apparent human consumption[17] rose by 26.8 per cent and *per capita* consumption by 11 per cent, increasing from 49 to 54 kilogrammes. If the group of countries which are large consumers of wheat—Argentina, Chile and Uruguay—are taken separately, it will be found that in them *per capita* consumption declined by 7 per cent from a maximum of 166 kilogrammes in 1948-1950 to 154 kilogrammes in 1954-1956. In the other countries taken together, consumption rose from 26 to 35 kilogrammes, or 34 per cent, per inhabitant.

During the three-year period 1954-1956, 69.2 per cent of supplies came from the various countries' domestic production and 30.8 per cent from imports. Of the latter, approximately half (15.5 per cent) was obtained from Latin American countries—Argentina and Uruguay—and the remainder (15.3 per cent) from other parts of the world, but principally the United States and Canada. The proportion of wheat supplies originating in Latin America was 84.7 per cent.

However, if all the Latin American countries are taken together and their exports to and imports from the rest of the world are considered as a whole, leaving aside for the moment inter-Latin American trade, it transpires that during the eleven years 1946-1956 the net foreign trade balance was unfavourable to Latin America by a total of 2,148,200 tons, an annual average of 195,200. It should be observed that the main characteristic of extra-regional wheat trade is its extreme variability. During the period under review, for instance, there were years in which the net balance was favourable to the region. What is more, during the three-year period 1954-1956 the annual average of this favourable balance was 393,100 tons as compared with the 10,000 recorded during the pre-war period (1934-1938).

For the calculation of the projections of demand according to a first hypothesis regarding the functioning of the common market, the coefficients of income-elasticity of demand for each country were employed. In some cases the requisite information was already available and in others it was obtained by comparison and analogy. According to these calculations the coefficient of income-elasticity of the demand for wheat of Latin America as a whole would be 0.43. For the high-consumption countries it is estimated at 0.12 and for the other countries 0.90.

Taking these figures as the basis for projecting demand in respect of apparent *per capita* human consumption for each country, it appears that between the base period 1954-1956 and the year 1975 there will be a decline from 154 to 144 kilogrammes (7 per cent) in the high-consumption group of countries and an increase from 35 to 52 kilogrammes (48 per cent) in the others. For Latin America as a whole, apparent *per capita* consumption should increase from 59 to 65 kilogrammes (10 per cent).

Similarly, it has been estimated that aggregate demand will increase by 33 per cent in the first group of countries, by 155 per cent in the remainder and by 99 per cent in the region as a whole. In absolute figures, this means that in 1975 the supply required to meet apparent human consumer needs will be 18.9 million tons as against 9.5 million tons in the base period, 1954-1956.

Probable future consumption can be worked out from the coefficients of the income-elasticity of demand provided wheat prices do not change in each country. But if the countries with inadequate production try to apply a policy of maximum self-sufficiency, grain prices in each country will tend to rise sharply. It has been suggested that in that case the *per capita* consumption of those countries would remain constant and that the greater demand would arise only from population increase. If that were so, apparent human consumption in Latin America as a whole would rise to 14.7 million tons, 54 per cent above the base period figure.

Given the volume of grain which the projection of demand in the year 1975 implies, it is pertinent to ask whether or not the Latin American countries have sufficient resources, especially land, to produce the requisite quantity of wheat, and if they have, what are the possibilities for their being used for this purpose and what unit yields can be expected, both from the traditional and from the new wheat lands, taking into account also the possibilities which technical progress opens up for agricultural development.

As regards soils, there are relatively few areas in Latin America which boast the ecological conditions necessary for wheat growing. They are to be found in the temperate countries (Argentina, Chile and Uruguay) and in the temperate zones of others (Bolivia, Brazil, Colombia, Ecuador, Mexico, Peru), usually at high altitudes, and also in some Central American countries. In considering the extent of wheat land available, it must be borne in mind that in order to maintain the same sown area of wheat, or other grain with similar requirements, over a period of five or more years, it is necessary to have suitable land of an area at least twice that annually sown with the grain in question. If the land is poor or rainfall inadequate and if fertilizers are not used and a crop-rotation system is not employed, the proportion of land sown annually with wheat or other grain could fall to 20 per cent or less of the available wheat-growing area.

[16] See section IV.

[17] No estimates have been made of the quantities used as fodder or of the amount lost in transport and storage.

With all these considerations in mind, a preliminary analysis has been made in the main Latin American producing countries and the conclusion—very provisional and subject to subsequent amendment—is that the maximum area which could be sown annually with wheat in all Latin America cannot be more than 17 million hectares. This limit could be raised at the cost of displacing other crops and of a consequent decline in the production of, say—depending on the country—barley, rye, oats, maize, sunflower, flax, cotton, etc., or the use of grazing land.

From the same analysis it has been estimated that an increase in the demand for the other products competing for the available land, comparable with the increase in the demand for wheat, would reduce the extent of land available for the latter to some 15 million hectares. Much below these limits were the areas used for wheat-growing in 1954-1956 and 1957—8.8 and 9.5 million hectares respectively.

In order to estimate the productive capacity of the land available, a reasonable hypothesis must be adopted regarding the pattern that the increase in unit yields may be expected to follow. Between 1948-1950 and 1954-1956, average wheat yields in Latin America increased 7.7 per cent, rising from 1,119 to 1,205 per hectare. In most countries the increase was persistent, although irregular and different from one country to another. A very conservative estimate, made separately for each country, suggests that the average yield in the region could reach a figure of about 1,390 per hectare by 1975 if the harvested area expands to the limit of 17 million hectares. If the cultivated area were to be 14 million to 15 million hectares that year—the estimated extent of the better land and that best suited to wheat-growing—the yield could rise to some 1,500 kilogrammes per hectare. Latin American production could in consequence rise to 21.8 and 23.6 million tons in the two cases respectively.

These increases in yields can be achieved only if all the producer countries intensify their programmes of agricultural research and development with a view to raising the technical level of agricultural activity. Even if yields should not improve, however, Latin America is in a position to meet all its domestic requirements. If regional demand grows according to the maximum hypothesis, but yields do not improve, it will not be able to maintain its exports to the rest of the world without a considerable sacrifice in regard to the production of other agricultural items.

(b) *Beef*

Latin America's consumption of beef is fairly low—about 25 kilogrammes *per capita per annum*, although the region is a net exporter to the rest of the world. In 1954-1956 annual imports from outside the region amounted to 25,000 tons as against extra-regional exports of 501.000 tons.

The information available indicates that the income-elasticity of the demand for such meat is 0.36 for Latin America as a whole, − 0.19 in high-consumption countries such as Argentina and Uruguay and 0.79 in the remainder. According to these coefficients, consumption would increase from 25 kilogrammes per inhabitant in 1954-1956 to 31 in 1975 and total consumption would rise from 4.3 million to 8.9 million tons—an increase of 107 per cent. In the low *per capita* consumption countries, however, aggregate consumption would rise by 167 per cent.

An increase in meat production would depend, technically, on the following three things: the increase in the livestock population, the rate of slaughter and the yield in meat per animal slaughtered. The total number of livestock in Latin America has grown at an annual rate of 1.7 per cent in the last decade. If this trend continues, the livestock population will have increased by 40 per cent by 1975. Thus, if the anticipated expansion in demand is to be met from regional production, it is imperative that this rate should be accelerated, that the rate of slaughter should be stepped up and that the yield per animal should improve.

In general it may be said that Latin America's livestock industry is characterized by the extreme inadequacy and the low productivity of the resources employed. The rate of slaughter is about 14 per cent of stocks and the yield in meat per animal in stock 31 kilogrammes.[18] An analysis of the reasonable improvements which could be made both in the rate of slaughter and the yield per animal and also in the growth of the livestock population indicates that by 1975 Latin America could produce some 9.7 million tons, sufficient for it to meet its own consumer needs and to export some 880,000 tons to the rest of the world, i.e., some 76 per cent more than at present. Naturally not all Latin American countries would be able to improve their meat production conditions to the same extent. The most favourable outlook is in the countries which are at present net exporters; these products thus offer good prospects for a much brisker regional trade than at present.

(c) *Milk, cheese and butter*

These commodities form a group for which demand is liable to rise rapidly. In 1954-1956, total consumption of dairy produce of all kinds was estimated at 17,200 million litres, expressed in terms of fluid milk, 55 per cent of which was consumed as fresh milk. Production, on the other hand, was 16,800 million. Imports from and exports to countries outside Latin America reached 664 million and 308 million respectively. The net balance for extra-regional imports was therefore 356 million (2.1 per cent of total consumption). Inter-Latin American trade consisted of 71 million litres, supplied entirely by Argentina.

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[18] The respective figures for the United States are 40 per cent and 70 kilogrammes, for Canada 39.8 per cent and 59 kilogrammes, for Australia 28.7 per cent and 47 kilogrammes, and for the Federal Republic of Germany 47.8 per cent and 65 kilogrammes.

The elasticity coefficients for milk demand vary from country to country ranging between 0.6 and 1.0, the highest being registered in the countries with the largest *per capita* income. Latin America's average coefficient is 0.88. On the basis of this figure and of projected population growth up to 1975, it has been estimated that demand for dairy produce of all kinds, expressed in terms of fluid milk, will be 45,500 million litres. The proportion consumed in the form of fluid milk will probably drop to around 45 per cent, following the general tendency to consume more processed milk.

All Latin American countries have suitable conditions for the economic production of all the fresh milk they will need up to 1975. This does not apply to milk that undergoes any processing, particularly cheese and butter. However, the temperate-zone countries may be able to cover the processed milk deficit of the other countries. For this reason, it has been assumed that each country will satisfy its own requirements of fresh milk, and that Latin America as a whole will meet all the increment in demand for processed milk. Imports from outside Latin America would therefore remain at the same level as at present.

(d) *Sugar*

Average apparent sugar consumption in Latin America was about 5.1 million tons a year in 1954-1956. During the same period, production was 10.6 million tons. The demand-elasticity coefficients vary from country to country, ranging between 0.2 and 0.9, with an average of 0.4 for the region as a whole. The highest are to be found wherever *per capita* consumption is low, and urbanization is leading to the replacement of *panela* by semi-refined or refined sugar. On the basis of these coefficients, it has been estimated that Latin American consumption will be about 10.6 million tons by 1975. Moreover, estimates of extra-regional demand show that it may be possible to export 8.8 million tons by the same year. Latin America is capable of reaching the level of production necessary for both purposes, particularly if an effort is made to increase yield per hectare and to improve milling processes.

(e) *Coffee*

Average coffee production in Latin America from 1954 to 1956 was 1,933,500 tons per year, of which 27.3 per cent (528,000 tons) was consumed in the region and the remainder exported to other parts of the world.

The elasticity of demand coefficients range from 0.2 in countries with a high *per capita* consumption level to 0.8 in non-producer and high-income countries. According to these figures, regional coffee demand by 1975 will be 1.1 million tons. Inter-Latin American trade in that year will depend on the imports effected by non-producer countries, where demand has been assumed to be 86,000 tons, which is equivalent to 7.7 per cent of aggregate demand in the region. Since extra-regional demand is assumed to reach its ceiling towards 1975, 2.8 million tons would have to be exported. Production should therefore reach 3.9 million tons by the same year, i.e., it would have to double its 1954-1956 figure.

The Latin American countries seem to have enough manpower and land to enable them to reach this production target. A high proportion of the land required is to be found on the coffee farms themselves. There are also excellent possibilities of improving yield by introducing up-to-date farming techniques.

(f) *Rice*

In 1954-1956, total apparent rice consumption in Latin America was 5.3 million tons, which almost equalled production. Extra-regional imports averaged 182,000 tons, of which Cuba took 147,000. Exports for other parts of the world were only 154,000 tons. Inter-Latin American trade reached 17,000 tons, with the help of exports. All the Latin American countries have suitable conditions for rice-growing and nearly all have been self-sufficient in this commodity at one time or another. There is no serious reason why they should not be so again.

Demand-elasticity coefficients vary greatly among the different countries, ranging from -0.1 to 1.0, with a regional average of 0.24. The lowest coefficients are usually registered in the countries with the highest *per capita* consumption or income levels. If the same coefficients are valid, Latin America's over-all rice demand will be 10 million tons by 1975. Since all the countries have development programmes for production, it is only reasonable to assume that they will become self-sufficient and that regular imports will no longer be necessary from any source by that year.

An export figure of 800,000 tons has been projected for the rest of the world in 1975. Thus, demand targets will be reached with a production level of 10.8 million tons, which is 104 per cent higher than that attained in the base period.

(g) *Bananas*

In 1954-1956, apparent banana consumption in Latin America was 7.7 million tons annually, while average production was estimated at 9.7 million tons. The difference between consumption and production was constituted by extra-regional exports; inter-Latin American exports were only 191,000 tons, i.e., 25 per cent of apparent consumption. Except for Argentina, Chile and Uruguay which have no banana crop and are the only importers in Latin America, the other countries are self-sufficient or net exporters.

In order to estimate consumption in 1975, population growth and demand-elasticity coefficients were taken into account, among other factors. The coefficients are 0.16 for the region and vary from 0 to 1.0 according to country. The lowest coefficients are to be found in producer countries with a high *per capita* consumption and the highest in countries of low individual consumption, whatever the income level *per capita*.

With the aid of these factors, it has been estimated that aggregate banana demand in Latin America will be 13.6 million tons by 1975, which will be covered entirely by regional production. Inter-Latin American trade will be determined by the imports of the three non-producer countries mentioned, which are likely to have a demand of 367,000 tons, i.e., 2.7 per cent of aggregate Latin American demand. Extra-regional exports towards 1975 should be 3.1 million tons.

Demand would be met by a production level of 16.7 million tons, which is 72 per cent above its figure in the base period. There seems to be no obstacle to the attainment of this target through an expansion of the cultivated area and, above all, through an increase in yield.

(h) *Cacao*

Average annual cacao production in 1954-1956 was 299,000 tons, of which 114,000 were consumed in Latin America and the remainder exported outside the region. Inter-Latin American trade was only 19,000 tons, which represents 16.7 per cent of consumption. Imports of extra-regional origin barely amounted to 400 tons (expressed in terms of cacao). Argentina and Colombia are the principal importers; the first lacks the right conditions for cacao production but the second has excellent possibilities of becoming self-sufficient. The other importer countries—Chile, Paraguay and Uruguay—are in the same situations as Argentina.

The coefficients of elasticity of demand fluctuate, according to the country in question, from 0.5 to 0.8, with a regional average of 0.6. On the basis of these coefficients and taking into account probable population growth, it has been estimated that by 1975 demand will reach about 265,000 tons. It has also been assumed that Colombia and the other producer countries will have become self-sufficient by then. Inter-Latin American imports would thus be limited to those effected by the four temperate-zone countries in South America. Demand in these four would be 18,000 tons; in other words, 6.8 per cent of projected consumption for Latin America as a whole.

Extra-regional imports will probably reach a maximum of 400,000 tons by 1975, i.e., 116 per cent more than the amount exported in 1954-1956.

Total demand will therefore require an output of 665,000 tons, which is 122 per cent more than that obtained in 1954-1956. This production target is quite feasible, particularly if modern growing techniques are introduced. Experience has shown that such techniques are capable of doubling and even quadrupling traditional average yield in several countries. New land could also be brought under cultivation in nearly all producer countries, although the exact amount is uncertain.

(i) *Cotton*

The demand-elasticity coefficient for textiles manufactured with cotton fibre has been estimated at 0.8 for Latin America as a whole. Demand in 1975 has therefore been assumed to be 1,655 million dollars as against 634 million in 1954-1956.

The projection of fibre requirements to meet textile consumption has been based on the supposition that Latin America will not have to import fibre from outside the region. As a result, regional fibre requirements would rise to 1.7 million tons. It is estimated that extra-regional exports may increase from 687,000 to some 950,000 tons, and that Latin American production should therefore expand from 1.25 million to 2.65 million tons. Since virtually all the producer countries have ample scope for expanding their cultivated area and improving yields, the production increment of 112 per cent needed to satisfy the whole of the increase in demand does not seem to be an unrealistic target.

IV. Balanced regional development and the common market

Three important conclusions have emerged from the foregoing analysis. In the first place, the prospects offered by foreign exchange supplies would, even under highly favourable conditions of external financing, oblige Latin America either to accelerate its import substitution process considerably or to reduce its rate of development. Secondly, since import substitution has already been carried out wherever it was easy to do so, and there is great need for further substitution, it is doubtful whether this process can be undertaken on a sufficiently wide scale to maintain the rate of economic development unless it is effected within the framework of a common market. Lastly, it has been demonstrated that the growth of demand for commodities which are most liable to distort the region's balance of payments with the rest of the world is so rapid that it is impossible to think of satisfying it to any great extent with regional output, without sacrificing the advantages of mass production. It remains to be seen whether a fair equilibrium can be achieved in inter-Latin American trade which would give all the participating countries, in proportion to their individual degrees of development, access to the benefits inherent in the formation of a common market.

1. BALANCED INTER-LATIN AMERICAN TRADE

Strictly speaking, the trade flows that would originate within the common market can be determined only by investigating advantages which the different countries offer as regards sites for the production of the import substitution items. Since it is impossible to carry out a study of this kind at present, a tentative series of approximate estimates has been made. On the basis of each country's resources, the size of its internal market and its supply of foreign exchange for purchasing extra-regional imports, projections have been made, in regard to the commodities enumerated, of the exports which each country might be able to send to other Latin American countries and how much it would have to import from unspecified sources within the region. The first results obtained have been revised until the greatest possible equilibrium has been achieved compatible with the institutional assumptions used as a starting point.

Through the application of this procedure, which enables orders of magnitude to be defined, it has been possible to obtain some idea of the probable level and composition of inter-Latin American trade in 1975. As indicated by the figures in table 17, there would be a radical change in its composition. Machinery and equipment, which are currently traded in negligible quantities and only sporadically, would become first in importance, while the second place would be occupied by chemical products which would thereby move ahead of the eleven agricultural staples that now comprise 45 per cent of total trade.

Table 17

Latin America: Level and composition of intra-regional trade, 1954-56 and projections for 1975

	Imports (millions of dollars)		*Percentage composition of imports*	
	1954-56	*1975*	*1954-56*	*1975*
Machinery and equipment	...	2 671	...	32.0
Passenger cars	—	540	—	6.5
Steel and semi-manufactured steel products	51.2	764	6.8	9.2
Copper and semi-manufactured copper products	3.3	180	0.4	2.2
Fuels	195.8	879	25.9	10.5
Chemicals and chemical products	7.6	1 125	1.0	13.4
Paper and board	0.1	130	...	1.6
Cotton yarn and textiles	7.9	360	1.0	4.3
Staple agricultural commodities	338.8	1 083	44.9	13.0
Miscellaneous	151.7	605	20.0	7.3
TOTAL	*756.5*	*8 337*	*100.0*	*100.0*

The figures in table 17 are not surprising if all the pertinent factors are taken into account. Perhaps the most important is the fact that import subustitution items which are most essential from a balance-of-payments standpoint are those which tend to be produced in the region and offer ample scope for specialization.

Machinery is a case in point. Countries with very small markets cannot supply their requirements to any great extent but can produce for export, above and beyond their own needs, various types of precision machinery the manufacture of which calls for a large labour force. Conversely, countries with large markets can satisfy their own needs and have a surplus for export in other types of machinery for the production of which economies of scale are important. It has been estimated that the latter countries would contribute about 80 per cent of intra-regional trade, and would therefore have to allot approximately 44 per cent of their internal production for exports. The remaining 20 per cent would consist of exports from countries with smaller markets, some of which already have a basic iron and steel industry, while others appear to have a labour force that would be highly suitable for training in precision work. Many of the imports originating in the area—63 per cent—would be acquired by the countries exporting the largest quantities of machinery. In actual fact, it is possible that the other countries may purchase more than 1,000 million dollars' worth of machinery in the region, i.e., less than a third of Latin America's total import requirements.

Chemical products are in much the same situation. Furthermore, nearly all the Latin American countries are likely to find some lines of production that they could successfully exploit among the vast range of products constituting the chemical industry. Although virtually all of them could export chemical products, there are perhaps no more than three which are capable of becoming net exporters. However, owing to the very nature of many of the products in question, national supplies will hardly exceed 80 per cent of total requirements in the countries with the most favourable conditions and 60 per cent in those with a small market or without the requisite basic raw materials (see table 18).

As regards passenger cars, inter-Latin American exports are not expected to come from so many countries of origin as in the two previous cases. Passenger

Table 18

Latin America: Projection of total imports and intra-regional trade in chemicals and chemical products, 1975

(Millions of dollars at 1950 prices)

	Total imports			Intra-regional exports
	Total	Intra-regional	Extra-regional	
Leading Latin American exporters	1 514	802	712	878
Other countries	501	323	178	182
TOTAL	*2 015*	*1 125*	*890*	*1 060*

car production, in fact, does not offer such opportunities for specialization and is strictly limited as regards the minimum size of the plants and the reduction of costs as the scale of operations increases. Although several countries could supply at least part of their consumption from domestic production, only three or four are likely to become regional exporters.

The position of steel and copper is midway between those already mentioned. In both cases there is a tendency to develop the production of semi-finished goods at sites near primary-processing centres. This favours the countries that produce steel and copper. Moreover, there are a number of by-products which may be economically processed near consumer markets. Several countries are already equipped with these production facilities and others are favourably placed as regards their future installation. All of them are likely to export something to the common market. Nevertheless, it may happen that only those which produce iron and copper ores will become net exporters (see table 19).

Table 19

Latin America: Projection of exports and imports of steel and copper and semi-manufactured steel and copper products, 1975

(Millions of dollars at 1950 prices)

	Steel [a]				Copper [a]			
	Imports			Intra-regional exports	Imports			Intra-regional exports
	Total	Extra-regional	Intra-regional		Total	Extra-regional	Intra-regional	
Net exporters	138	93	45	286	33	33	—	172
Net importers	1 549	830	719	348	239	59	180	—
TOTAL	*1 687*	*923*	*764*	*634*	*272*	*92*	*180*	*172*

[a] Steel transactions in intra-regional trade are valued at 175 dollars per ton for imports and 145 dollars for exports. For copper, the corresponding values are 714 and 682.5 dollars.

It is relatively easy to determine the possible volume of trade in fuels. As there is considerable information available on the possibilities of expanding petroleum production in all the countries that are current producers, and the growth of demand has been analysed by countries, a fairly sound idea has been obtained of the size of the balances that will be available to net exporters and of import requirements in the countries with insufficient production (see table 20).

Table 20

Latin America: Production of and trade in petroleum and petroleum derivatives, 1953 and 1955, and projections for 1975

(Millions of tons)

	1953	1955	1975
Consumption	39.9	47.3	201
Production	115.8	141.5	353 [a]
Extra-regional exports	87.9	99.5	160
Extra-regional imports	12.0	15.8	8
Intra-regional imports	7.1	8.6	58

[a] The production increment is estimated in terms of the increment in demand. The resources at the region's disposal are such that it could produce much more.

It has been estimated that by 1975 regional coal imports will be about 300 million dollars. Only a trifling part of this amount would be supplied from within the region, owing to the problems presented by Latin American coal.

The projection of intra-regional trade in agricultural commodities merits further comment, since such trade depends largely on the treatment that these commodities receive under the common market system. In order to illustrate the kind of problem which may arise if different types of treatment are applied, two hypotheses have been formulated. In the first, each of the countries of the region would make the greatest possible effort to reach self-sufficiency compatible with its productive resources. In the second, each would try to increase its production of the different agricultural commodities, but without trying to exhaust its output possibilities. In the former case, inter-Latin American trade in these commodities would exceed its level in 1954-1956 by only 10 per cent. In the second case, it would exceed it 3.7 times (see table 21).

Table 21

Latin America : Alternative projections of intra-regional imports of selected agricultural commodities, 1975

(Millions of dollars at 1950 prices)

	1954-56	1975	
		Maximum self-sufficiency	Moderate protection
Wheat	107.9	131	447
Rice	3.6	—	—
Sugar	41.6	32	35
Coffee	43.6	62	95
Cacao	11.3	8	11
Bananas	35.6	50	68
Beef	11.3	—	71
Mutton	1.0	—	3
Pork	1.5	—	3
Milk and milk products	3.9	—	249
Cotton fibre	35.9	43	101
TOTAL	*297.2*	*326*	*1 083*

Note: The figures for 1954-56 in this table are not consistent with others cited in the present study because, when they were calculated, all import volumes were reduced to their equivalent in terms of the primary commodity.

If the Latin American countries decided on maximum self-sufficiency, intra-regional trade would be confined to the tropical commodities which temperate-zone countries would have to continue to buy for want of the right conditions to grow them themselves. Among temperate-zone commodities, only wheat and wool would still be traded, although the volume would not be much larger than it is at present. Meat of all kinds, dairy produce and oils and fats would disappear completely from intra-regional trade.

Such a decision would have two important and undesirable consequences. Firstly, the tropical countries would be forced to prevent *per capita* consumption of wheat, meat, milk and dairy produce from increasing, while the temperate-zone countries would have to avoid any increment in the consumption of bananas, coffee, cacao and sugar, and, in the case of two of them, in that of cotton as well. The second and most important of these consequences is that the temperate-zone countries exporting agricultural commodities would find it extremely difficult to balance their payments. The agricultural commodities in question would constitute 40 per cent of these countries' exports to the region if all the others were to adopt a policy of limited self-sufficiency. On the other hand, the adoption of a policy of maximum self-sufficiency would reduce such exports by approximately 25 per cent and there appear to be no other non-agricultural commodities to take their place and keep up the level of trade.

As is only natural, any reduction in exports from one country or a group of countries affects all the others. It may be estimated that the application of an extreme protectionist policy would lead to a contraction of some 450 million dollars in trade in agricultural commodities and might further entail a reduction of some 1,500 million dollars in over-all trade. A sizeable proportion of this amount would be represented by exports from the very countries that had adopted such an extreme policy. In other words, these countries would produce a larger quantity of the agricultural commodities that are subject to the limits imposed by protection, and less of other exportable items which have a higher capital productivity and use more manpower than protected agricultural commodities. This would make it very difficult to maintain the rate of historic development in Latin America.

Apart from the considerations in the foregoing pages on market size, resources and available reserves of foreign exchange for importing from outside the region, there is another extremely important factor which should be borne in mind in assessing the probable level of intra-regional trade and the changes which are likely to take place in its composition: the maladjustments in the structure of production which may result from a reduction in restrictions.

The nature and magnitude of these maladjustments should be considered concurrently in the light of various factors. Perhaps the most important of these are the rate at which internal demand increases and the degree to which such an increment is at present supplied by Latin America itself. In the case of the paper and board group, for instance, for which demand does not grow with particular rapidity, current regional demand, 370 million dollars, may be expected to increase to 1,540 million by 1975. There would also be sizeable increments in demand for machinery, passenger cars, steel and steel products, copper and copper products. No Latin American country, however well equipped to produce these goods, would be in a position to monopolize the regional market. The investment effort required would be so enormous that it would completely distort the price and production structures of the country making it. It may thus be asserted on fairly reliable grounds that in the case of those products or group of products that contribute little to regional supplies and for which demand increases rapidly, the creation of an unrestricted common market would not entail any major maladjustments. The problems which might arise in specific branches within the groups mentioned could be dealt with by measures recommended by the Working Group on the Latin American Regional Market.

The situation of cotton textiles, for example, is quite different. In this case, a large proportion of the supply is of local origin in several countries, and costs are very disparate. The sudden establishment of an unrestricted market would lead to serious disequilibria in many small countries, above all in those which depend on imported fibre. Furthermore, over the long term, there would be a strong tendency for regional production to concentrate in countries that produce fibre and have large internal markets.

In the case of chemical products, particularly pharmaceuticals, short-term imbalances may also emerge, as well as a tendency to regional concentration over the long term. Nevertheless, there are great differences between the position of the chemical industry and that of the cotton textiles industry. Although the growth of demand is rapid, the localization of many specific branches in the chemical industry proper is determined by the source of the raw materials used rather than by the proximity of a consumer market, and economies of scale do not seem to have much importance so far as pharmaceutical products are concerned. The danger of an undue concentration of the chemical industry is more likely to be brought about by the tendency towards a production monopoly, which is a common phenomenon in this industry owing to the secret and highly technical nature of the complicated procedures used in many of its branches.

The situation of agricultural commodities varies considerably. The common market might be the cause of serious maladjustments but they would be on a smaller scale than is commonly believed. It is possible that no Latin American country will be able to maintain its current level of wheat production in the face of unrestrained competition from Argentina and Uruguay. Moreover, the anticipated increment of 10.3 to 20.3 million tons in wheat demand could not be completely covered by these two countries, however great their efforts. Therefore, both in this case and in that of beef, which is in a similar situation, the establishment of the common market would at first lead to a partial reduction in output in countries with the highest costs, and would then improve the terms of trade for exporter countries, thereby re-establishing protection for those whose production is insufficient.

All these considerations have been taken into account in estimating the probable magnitude of each Latin American country's trade with the rest of the region. Thus, it has been assumed that measures would be taken to give a certain amount of protection to local chemical industries, that trade in cotton textiles would be limited to the more highly specialized types, and that protection would be given in each country to a moderate increment in local production of the agricultural commodities that are a normal part of international trade. On the basis of these suppositions, of a knowledge of the foreign exchange available for importing from outside the region and of each country's development rates, it has been concluded that countries with a small market will naturally tend to have a deficit *vis-à-vis* the rest of Latin America. In spite of the small size of their markets, there would be no such deficit if these countries were accorded the preferential treatment recommended by the Working Group.

External economies and eonomies of scale tend in themselves to facilitate the rapid development of the most advanced areas. This is undoubtedly an important factor in determining the deficits that would result from the projections contained in this study, and also reflects the institutional arrangements that have been envisaged. If, for instance, the small countries' cotton textile industries were to receive preferential treatment in the big markets, it is very likely that they would be able to profit from a much larger proportion of the 1,000 million dollar increment to be expected in demand for this type of product. Increases in exports may also take place in the foodstuffs industry. In the case of both the foodstuffs and textiles industries, they might be sufficient to enable the less developed countries to balance their trade. Freight policy may also be a valuable ally. If the small countries were to take an active part in the freight involved in trade transactions, which, measured by exports, would amount to some 7,200 million dollars, they would make an important contribution towards balancing inter-Latin American payments.

An attempt might also be made to balance these countries' trade by cutting their imports. Nevertheless, the deficits are largely a reflection of their requirements in respect of machinery, fuels, steel and passenger cars. A reduction in imports of these items—if not transformed into a deficit *vis-à-vis* other areas—would, except in the case of passenger cars, lower these countries' rates of growth. An analysis has also been made of the possible repercussions of any restriction on imports of agricultural commodities on the deficits of the small-market countries, and the conclusion was reached that restrictions of this kind would not help to eliminate them. On the contrary, they would rule out the possibility of achieving equilibrium with the large-market countries, as already pointed out.

2. BALANCED REGIONAL DEVELOPMENT

The establishment of a common market always arouses misgivings as to its effects on the weaker members of the association. This concern is based on national and international experience. The period of international economic liberalism witnessed the rapid development of some countries and the slow development of others, but also stagnation and recession of a third group. Within each country—which is a small world without frontiers—the same phenomenon of unequal development may be observed.

This phenomenon, whether international or national, is easily explained: some regions are better adapted than others for development purposes. Among the prerequisites, which include natural resources, organization and social mores, the most outstanding are external economies and economies of scale. Where many and varied industries already exist, it is usually possible to install another at a lower cost than if it were to be established in isolation. Similarly, purchasing power is usually high where there are many varied industries and production can therefore be carried out on a larger scale. For this reason, it is believed that once a certain level of development has been attained, self-generative forces come into play.

If, in attempts to develop a country or a group of countries, the choice of site for the new industries is governed strictly by the principle of economic expediency—according to which the site should be wherever production costs are lowest—the development rate of the country *as a whole* will be the highest compatible with a given quantity of resources. Nevertheless, it should be noted that the greater the rigour with which this principle is observed, the more disparate will be the rates of growth in the different zones of the country or in the group of countries, for the reasons already given.

The disparity among the rates of growth in the areas in which activities are distributed in accordance with the criterion of economic expediency may be so great as to lead to the stagnation of a densely populated zone. If this occurs, it may be necessary to abandon the abovementioned principle and to allocate the new industries among the different areas in such a way as to ensure that they will not conduce to stagnation. This will result in a slower rate of growth for the country as a whole than if the principle of economic expediency is observed to the letter, but income will be better distributed among the different zones. The discrepancy between the rates of growth achieved in one case or the other will represent the price that the country has to pay for a development process that is better balanced at the regional level. This reasoning is equally applicable to the whole world or to a region composed of a large number of countries. The greater the degree of homogeneity aspired to as regards the rates of growth in the different zones of a country or countries of a region, the higher the price. A point will be reached at which the production sacrifices made by the country or countries as a whole will be so great that it will no longer be worth while to insist upon greater equality among the zonal rates of growth. To sum up, whenever a country or region composed of heterogeneous zones is to be developed, it must first be decided to what extent the growth of the whole is to be sacrificed in favour of greater equality of growth for each component.

If the choice of site made by private investors gives rise to no difficulties the development of a heterogeneous body—be it country or region—will lead to the formation of a single group of rates of growth for its component elements. By what mechanism will this group be formed? The most important mechanism of all consists of the trade balances among the different zones.

For instance, a given country may have only two regions: one that is central and developed and the other which is undeveloped and on the periphery. When the central region develops at a certain speed, its demand for goods produced by the periphery increases, i.e, exports from the periphery expand. This expansion leads in its turn to an increase in the periphery's income and imports from the central region. If the increment in such imports exceeds that of exports to the central region, the intra-regional trade balance will show a debit for the periphery which will reduce its monetary demand and hence the increment in income deriving from the expansion of exports. This reduction will reach a point at which the increase in income earned by the periphery will lead to an increment in the demand for imports exactly equivalent to that in its exports. The difference between the growth of income in both regions therefore depends on two factors: (*a*) the relation between the income-elasticity of demand for imports in the two regions; and (*b*) the influence of exports on the growth of this demand. This statement is equally valid in the case of a country with several regions: their respective rates of growth will be related or influenced mutually by intra-regional trade balances. *Viewed from another angle, this is tantamount to asserting that one of the principal mechanisms for ensuring the equilibrium of completely unrestricted intra-regional trade is a differentiation of the rates of growth in each of the component zones or regions.* If one of these zones shows a constant deficit in its intra-zonal trade, this indicates that it is growing too rapidly in relation to the others, while a persistent credit balance would be symptomatic of too slow a rate of growth.

The group of rates of growth which a balanced and completely free intra-regional trade would bring about is unsatisfactory in one case. If the progress of regions that develop more slowly is to be expedited, a way must be found of preventing a deficit from forming in their balances of payments. There are several methods of doing so, although some of them may be forbidden in a given country. In the first place, the regions which develop more rapidly may stimulate the flow of capital towards the others, whether through transfers free of charge or in the form of loans or investments. Within a country, the provision of public works and services in a debtor region to a value exceeding that of the region's tax payments to the central Government is one way of making such a transfer. Secondly, creditor regions may increase their demand for imports from others which have deficits that influence the price mechanism. A reduction in prices—if demand is sensitive to such changes—may increase the deficit. Prices can be reduced by lowering import taxes or other charges which are liable to affect them or by cutting transport rates. Thirdly, demand may be influenced by an acceleration in its rate of growth. For instance, if the centre's annual growth rate is 3 per cent and this results in a growth of 1.5 per cent in the periphery, the minimum acceptable being 2 per cent, the central region will have to raise its rate to 4 per cent unless it prefers to take measures of another kind.

For their part, the regions with a deficit may reduce their import demand by resorting to the price mechanism and thereby paving the way for the replacement of imports from creditor areas by regional production.

If the latter procedure is adopted, trade will be balanced at the lowest possible level determined by the value of exports from the periphery and also at the lowest rate of growth in the region as a whole, since the principle of economic expediency will be less strictly applied. On the other hand, if the method of reducing rates in the central region is adopted, trade will be balanced at the highest possible level and the rate of growth for the whole will not be adversely affected. The central region will import more and continue to export the same quantity as before. The only difference will be that it will cease to accumulate assets which previously belonged to the periphery. Even so, it may happen that the centre's demand for products traditionally exported by the periphery will be impervious to price changes. In this case, both regions will have to find some means of enabling the periphery to modify its export structure.

The methods outlined are not mutually exclusive. It is possible to change the structure of trade and, at the same time, to encourage capital to flow towards the periphery. With respect to such movements of capital, a clear distinction should be drawn between long-term capital contributions and short-term credits which may finance a payments union within a common market. Stress is again laid on the need for capital which the International Bank for Reconstruction and Development, on the one hand, and the International Monetary Fund, on the other, are satisfying to a certain extent at the international level.

The brief observations made previously are of practical importance in that they clarify the problems that are raised by the establishment of a common market. *These observations show, in the first place, that the advantages and disadvantages accruing to each country from the common market should not be judged from the difference between the individual rate of development of each member country in respect to that of the others.* The real yardstick is the difference between the development rates that each country could attain inside and outside the common market respectively.

A very rough estimate has been made for purely illustrative purposes of the significance for each Latin American country of its participation in the common market. In order to do so, a projection has been made of each country's gross national product in 1975 in the event that such a market is not established. The projection has been based on export prospects, on the degree of import substitution that each country is capable of achieving on the basis of its own market, and on the volume of possible loans and investment. The three factors have then been compared with equivalent assumptions as to the modifications that they may undergo in composition and volume if the development projection is placed within the setting of a common market. In addition, a projection has been made of the gross national product that each country may attain within the common market, on the basis of the same factors, and also taking into account the need to achieve a certain measure of equilibrium in inter-Latin American trade.

According to these projections, Latin America's aggregate gross product would expand nearly 50 per cent more by 1975 if the common market were established and the individual countries' gross products would also increase more. These assumptions have also borne out an empiric forecast: it will be the countries with small markets and those others which, whatever the size of their markets, are liable to have greater difficulties in expanding their traditional exports to the rest of the world, that will benefit relatively more from the establishment of the common market, provided that they recognize and offset to some extent the disadvantages from which they will suffer in competing with other countries. Thanks to the common market, these countries may succeed in increasing their total gross product by at least two-thirds. The other countries may achieve an increment of between one- and two-fifths.

In general, it may be stated that the absence of a common market would affect the development of the smaller rather than of the bigger countries, while its establishment would improve the outlook for both and reduce the disparity between their development possibilities provided that the small countries are given the preferential treatment suggested by the Working Group on the Latin American Regional Market. If this occurs, some small countries may develop more rapidly than the larger ones. On the other hand, the reason for the possible discrepancy in the *per capita* rates of growth in favour of the large-market countries is not so much the influence which may be exerted on them by the common market as the fact that the rate of population growth is usually higher where *per capita* income is lower. In Latin America, most of the small-market countries have a low *per capita* income level although, as in the cases of Brazil and Mexico, not all the countries with a low *per capita* income level have a small market. If the market is small, the combination of a rapid population increase with a high rate of *per capita* income growth leads to an untenable rate of growth for the gross product. For these reasons, the disparities between the rates of growth of the aggregate product in the small- and large-market countries will probably be much less than those between the rates for the respective *per capita* products. In the case of several countries with small markets, their respective aggregate products are liable to expand to the same extent as those of the larger-market countries, thanks to the common market. If new lines of activities are discovered in these countries which would give them a greater development potential, their participation in the common market, far from being a drawback to the intensive utilization of such a potential, would boost it. Moreover, to the extent that the process of regional integration is accompanied by migrations from the zones of slower economic development to those where progress is more rapid, possible disparities in *per capita* rates of growth will tend to become smaller.

C

THE FREE-TRADE AREA

E/CN.12/C.1/11/Add.1
20 April 1959

Introduction

The secretariat has convened a series of consultative meetings on trade policy for the discussion of specific inter-Latin American trade problems common to certain countries of the region. A further series of such consultations was held at Santiago from 6 to 17 April 1959. The meetings, the summary record of which, together with the relevant annexes, is to be found in the following pages, were attended in a personal capacity by experts on trade policy from Argentina, Brazil, Chile and Uruguay, who continued, in collaboration with the secretariat, the work begun at a previous series of meetings held in August-September 1958.[1]

On the present occasion, bases prepared beforehand by the secretariat were utilized in the drafting of an agreement on a free-trade area (see annex III). If this were adopted by the Governments concerned, it would supersede several of the bilateral agreements which have been in force in respect of trade between the southern countries of the region, but which are no longer effective mainly on account of the recent exchange reforms introduced in Argentina and Chile and the application of a new customs tariff in Brazil. This development has thrown into relief the urgency of the need for such agreements to be brought into line with the trends towards multilateralism underlying the reforms in question, and for the simulaneous opening-up of channels for new trade flows, especially trade in manufactured goods.

In the preparation of the draft agreement on a free-trade area, the consultants who met at Santiago likewise bore in mind the desirability of taking into account the situations established under trade treaties in force with third countries and under the regulations of the General Agreement on Tariffs and Trade (GATT). Their aim was to ensure that the ends pursued by the formation of the free-trade area should be attained without prejudice to another fundamental objective—that of expanding Latin America's aggregate foreign trade with the rest of the world.

Attention must be called to another point in connexion with the draft prepared at the series of meetings held in Santiago. If the agreement on a free-trade area is to produce the desired effects and supersede the former bilateral instruments, it must be submitted to GATT. In this context it should be recalled that the preliminary formalities with a view to its presentation were initiated at Geneva in October 1958, the intention being to pursue them further when the political and diplomatic aspects of the draft prepared at the technical level by the experts who were to meet at Santiago had been considered by the Governments concerned.

It is also of interest to note that the draft is accompanied by several recommendations arising out of the desire to facilitate participation in the agreement as from the present time for other Latin American countries wishing to join the free-trade area (see in particular paragraphs 12 and 13 of the summary record). To this end, the draft recognizes the possibility of future negotiations for the incorporation of new countries. It also provides for the possible transformation of the instrument into another of broader scope. This might well be the general agreement setting up the Latin American common market, in accordance with whatever bases the Governments established after considering the relevant proposals drawn up by the Working Group on the Latin American Regional Market at its recent session in Mexico in February 1959.[2]

The Santiago consultations are of importance for practical inter-Latin American co-operation in the field of trade expansion and economic integration. The consultants from Argentina, Brazil, Chile and Uruguay reported in the course of the meetings that their countries had decided to accede to the Protocol prepared in Rio de Janeiro at the second session of the Central Banks Working Group held in November 1958.[3] This draft protocol provides for the establishment of an agency to handle the multilateral compensation of payments in Latin America. A minimum of four signatures is required for the agency to bring the system into operation. Thus the pertinent decision adopted by the Governments of the four countries mentioned will enable the agency to begin its activities. It will be recalled that under the terms of a resolution adopted at the second session of the Central Banks Working Group, the headquarters of the agency was to be the secretariat of the United Nations Economic Commission for Latin America, which had agreed to assume this responsibility provisionally until the countries concerned reached a decision on the final arrangements that might appropriately be made.

[1] See document E/CN.12/C.1/11, which contains the summary records of the first session, held at Santiago (Chile), and of the session held at Bogotá (Colombia), from 13 to 18 November 1958, which was attended by experts from Ecuador, Colombia and Venezuela, who met again at Caracas (Venezuela) from 2 to 7 March 1959 (E/CN.12/C.1/11/Add.2).

[2] See section A, Part Two, II, of this volume, pp. 38 *et seq.*

[3] See E/CN.12/C.1/10. For the text of the Protocol see annex IV of this section, pp. 104 *et seq.*

Consultations on trade policy

Summary record of the meetings held at the Headquarters of the United Nations Economic Commission for Latin America, Santiago, Chile (6-17 April 1959)

MAIN OBJECTIVES OF THE MEETINGS

1. Continuing the work begun at the similar series of meetings held in Santiago between 26 August and 1 September 1958, at the Headquarters of the Economic Commission for Latin America, a new series of consultations on trade policy between the secretariat of the Commission and countries in the southern zone of South America was held at Santiago from 6 to 17 April 1959. The invitation issued to the experts by the secretariat was based on paragraph 4 of ECLA resolution 69 (V).

The main object of the meetings was to study the bases for a draft multilateral agreement which Argentina, Brazil, Chile and Uruguay are proposing to draw up in order to solve pressing problems connected with the substantial reforms recently introduced by some of the southern-zone countries in their customs and exchange systems.

Clearly, if trade interests were to be safeguarded, the bilateral agreements currently in force between the countries named would have to be remodelled as soon as possible in order to bring them into conformity with the tendency towards multilateralism deriving from those reforms and to further economic integration. Consequently, and, furthermore, with due regard to the possible formation of the Latin American common market, it was borne in mind that the structure of the draft agreement should be flexible enough to facilitate its extension to an increasing number of countries and goods.

ATTENDANCE

2. The following experts attended the meetings as consultants to the secretariat of the Commission, not as representatives of their respective Governments:

ARGENTINA:

Consultant: Adolfo España Sola, Under-Secretary for Trade

Advisers: Roberto T. Alemann, Adviser, Ministry of Economic Affairs

Arnaldo Musich, Adviser, Ministry of Foreign Affairs

Ovidio S. Ventura, Adviser, Finance Department

Horacio Doval, Deputy Director, Department of International Conferences and Agencies, Ministry of Trade

Carlos Vaillati, Economic Adviser to the Embassy of the Argentine Republic in Chile

BRAZIL:

Consultant: Edmundo Barbosa da Silva, Director, Department of Economics and Trade, Ministry of Foreign Affairs

Advisers: Gerson Augusto da Silva, Chairman of the Council for Customs Policy

Paulo Cabral de Mello, Deputy Chief, Department of Economics (America Division), Ministry of Foreign Affairs

Othon Guimaraes, Secretary to the Embassy of Brazil in Chile

CHILE:

Consultants: Fernando Illanes, Director, Department of Economics, Ministry of Foreign Affairs

Samuel Radrigán, Director, Department of Foreign Trade and Revenue, Ministry of Finance

Advisers: Gustavo Valdivieso, Director, America Department, Ministry of Foreign Affairs

Hernán Gutiérrez, Deputy Director, Research Department, Ministry of Foreign Affairs

URUGUAY:

Consultants: Crisólogo Brotos, Deputy Director, Department of Economic Policy, Ministry of Foreign Affairs

Roberto González Casal, Adviser, Ministry of Finance

The following representatives attended on behalf of the secretariat:

Raúl Prebisch, Executive Secretary

Alfonso Santa Cruz, Secretary of the Commission

Esteban Ivovich, Chief, Trade Policy Division, and Secretary of the meetings

Advisers: Santiago Macario and Alberto Solá

ACTION *vis-à-vis* GATT

3. The first topic of discussion was the position with respect to the General Agreement on Tariffs and Trade. In compliance with proposals put forward at the previous series of meetings and following the Declaration signed at Rio de Janeiro on 26 August 1958 by eleven Latin American countries, steps had been taken in the direction of securing GATT's recognition for the preferences inherent in the projected agreement, GATT's approval of which would also greatly facilitate, when the time came, the establishment of the common market.

To this end, on 22 November 1958 an official communication to the Contracting Parties of GATT had been drawn up, informing them that the matter would be finally submitted for their consideration, once the definitive form of the specific agreement in question had been decided upon by the Governments concerned. At the thirteenth session of GATT, the Contracting Parties took note with interest of this communication, and stressed their readiness to co-operate.

4. In this connexion, Mr. Edmundo Barbosa da Silva, Consultant, made a statement of which a resumé is given —at the unanimous request of the meeting—in annex I to the present summary record. (The text of the memorandum from the Government of the United States, dated 26 August 1958, to which the statement refers, is presented in annex II.)

The consultants from countries members of GATT agreed to point out to their respective Governments that it was no longer opportune to consider the proposal put forward at the GATT session to the effect that a standing committee should be set up to centralize consultations with Latin American countries on the establishment of an economic integration agreement.

The moment for this had passed, in the opinion of the meeting, since the progress already made by the Latin American countries concerned towards the drawing-up of a multilateral agreement would enable them to submit it to GATT in the relatively near future, and, in such an event, for purposes of its consideration by that body, the best course might be to set up, not a standing committee, but a working group such as was customary under GATT procedure, were such a group deemed necessary by the Contracting Parties.

Scope of the term "liberalization"

5. With reference to the preparation of the draft agreement, the first point to be clarified was the scope to be given to the term "liberalization".

One consultant recalled that, following OEEC practice, in Europe "liberalization" was commonly taken to mean the total or partial lifting of non-tariff barriers and restrictions, although the concept did not apply to state transactions, whose very nature obviously placed them outside the scope of measures of that kind.

It was pointed out by another consultant that in Brazil "*liberalizar*" meant reducing tariff and other restrictions, whereas "*liberar*" implied their complete abolition.

As the different senses of the term might lead to confusion when the agreement was submitted to GATT at Geneva, it was unanimously agreed that, so far as possible, the word "liberalization" should be eliminated from the text, and that in each instance it should be specified that the reference was to the reduction and abolition of customs duties or other restrictions, as the case might be.

Types of instrument

6. One consultant called attention to the importance of considering which of the following three alternatives would be the best method of approach: (*a*) bilateral negotiation; (*b*) bilateral negotiation, the results of which would, however, take on a multilateral character by the observance of the unconditional most-favoured-nation clause among member countries; or (*c*) a free-trade area.

Rejecting the first, which would be inconsistent with present trends, he suggested that it would be worth while to discuss the other two. He wondered whether the time was already ripe for embarking upon the constitution of a free-trade area and drawing up a specific plan and schedule for this purpose, or whether it would be preferable for the moment to aim at nothing more ambitious than a provisional agreement of about five years' duration, so that experience might be acquired, customs tariffs might be remodelled in the interim, and the way might thereby be paved for broader agreements. Perhaps such a formula, really consisting in bilateral negotiations of which the results would be multilateral in their scope, might be presented to GATT with reasonable possibilities of success. The instrument concerned would be of the special type covered by article XXV, paragraph 5, of the General Agreement on Tariffs and Trade, under the terms of which the Contracting Parties were empowered, provided that any such decision were approved by a two-thirds majority, to waive general obligations—in this case that of observing the unconditional most-favoured-nation clause—imposed by membership of GATT.

Stability of the agreement

7. After lengthy discussion, the free-trade area was decided upon as the most appropriate formula.

8. One consultant expressed the view that periodic revision of the agreement—perhaps every three years—would enable a satisfactory compromise to be made between taking advantage of the experience acquired in the course of its application and giving it the stability which was desirable if the required results were to be achieved.

9. Another remarked that any agreement with no guarantee of continuity in subsequent phases would contribute little to the solution of economic problems calling for long-term measures.

10. There was a consensus to the effect that the agreement would be to some extent provisional, in the sense that it would be regarded as a first move of a multilateral character towards progressive forms of integration. It was also noted that the relevant GATT provisions (article XXIV, paragraph 5) expressly provided for the adoption of interim agreements leading to the formation of free-trade areas or of a customs union, provided that such agreements included a plan and schedule for the complete establishment of the free-trade area concerned within a reasonable length of time.

Unconditional most-favoured-nation clause

11. One of the consultants pointed out that the unconditional most-favoured-nation clause, as between member countries, embodied the functional principle

determining the structure of the agreement, and should therefore be regarded as its cornerstone.

It was unanimously agreed that exceptions to the clause ought as a rule to be subject to time-limits, and that their provisional application should in each case be conditional upon approval by the Committee administering the agreement and consistent with the latter's principles.

By the time the formative period came to an end, all trade movements within the area would have to be covered by the clause.

One consultant voiced the opinion that by some standards it would seem desirable for the regulations governing provisional exceptions to be established by the committee administering the agreement.

Another specific point made in the course of the discussion was that in no case would exceptions to the clause be admitted in respect of trade in goods and services between a signatory of the agreement and third countries.

PLAN AND SCHEDULE

12. The discussion of the form that would be taken by the requisite plan and schedule revealed the vagueness of the relevant GATT provisions and the lack of available precedents. It was clear from article XXIV 8 (b) of GATT that within a reasonable length of time the abolition of customs duties and other restrictions would have to be achieved in respect of substantially all the trade in question. But the text of the General Agreement did not define the meaning of "substantially all", a term which would signify approximately 80 per cent of the value of the trade concerned according to the opinions expressed by various Contracting Parties during the discussion on the establishment of the European common market at the twelfth session of GATT.

13. The following point was also clarified. The machinery for the gradual abolition of duties would function in such a way that by the end of the period of formation of the free-trade area the application of a single import schedule of goods produced by member countries would be in full operation. Within the area covered by the agreement, these goods would circulate duty-free and exempt from other restrictions, and their value, at the latest as from the expiry of the time-limit stipulated, would represent approximately 80 per cent of total trade within the agreement area. It was considered that during the period of formation of the free-trade area, and on the basis of a programme of minimum targets, the single schedule would not preclude the temporary maintenance of separate import schedules in each country; for during that phase, such lists would be the outcome of negotiations to incorporate goods and to determine the progressive reduction of each duty within the corresponding average, with due regard to reciprocity as between the parties. Such reciprocity, moreover, was implicit in the system of weighted average reductions. By dint of successive revisions, the temporarily separate lists would be gradually enlarged, in accordance with the programme agreed upon, and concomitantly with the advances made in the process of eliminating duties on the same articles in each list.

14. Another consultant noted that the free circulation of goods which the single import schedule would signify at the end of the period might have a restraining influence on the development of anti-economic lines of production in countries where the level of productivity was similar.

15. It was pointed out that the bases for planning the structure of the common market which had recently been proposed at the second session of the Working Group on the Latin American Regional Market suggested the adoption of patterns which would reconcile, within the free-trade area, the interests of countries at different stages of development.

Such patterns were not considered likely to constitute an obstacle to the establishment of the single import schedule, which by the end of the stipulated period would ensure free circulation of substantially all trade items. The margin between the proportion taken as substantially all trade—80 per cent—and the value of total transactions within the area would in effect leave room for special customs agreements designed to promote the levelling-up of the development of member countries on an increasingly broad scale, as well as for measures calculated to offset marked and persistent disequilibria in the movement of goods and services between one member country and the rest of the area as a whole, and for certain industrial complementarity agreements. Furthermore, it was recalled that, if such agreements were to prove efficacious, the duties applied by member countries to imports of specific raw materials, semi-manufactured goods and spare parts from the rest of the world would have to be readjusted and equalized, as provided for in the bases prepared by the Working Group on the Latin American Regional Market at its Mexico session. The result would be that the free-trade area contained the germ of its subsequent transformation into a customs union, the arrangement which would best lend itself to economic integration. Again, one consultant stressed that special customs agreements would necessarily be subject to a time-limit, since on the expiry of the specified period they would be absorbed by the system of total elimination of duties and other restrictions.

16. In connexion with the preceding point, it was recalled that, at the twelfth session of GATT, the six members of the European common market, with reference to the association concerted between the market and certain overseas territories, contended that the right of such territories under the Rome Treaty to maintain customs duties, unilaterally and without reciprocity, on imports from the countries constituting the European common market made no material difference to the structure of the free-trade area, since, despite this special régime within its sphere of influence, the system of unrestricted circulation of goods would cover 80 per cent of the grade involved.

It was the unanimous view of the group that the elimination of restrictions on the great bulk of trade should be computed on the basis of the total value of transactions within the free-trade are and note was taken of the existence of precedents for this criterion in the proceedings of GATT. At its twelfth session, the six had declared that, so far as the free-trade area constituted by them and their overseas territories was concerned, the process of elimination as a whole should be effected not for each individual country, but globally, so as to afford more incentives to the development of economically weaker countries.

17. In this context, the group took note of the provisional lists (giving values) which the secretariat had prepared purely for purposes of information. They showed that within a reasonable period of time customs duties could be abolished for over 80 per cent of inter-Latin American trade in goods produced within the region.

18. In view of the impression of vagueness created by the pertinent GATT regulations, there was a general feeling that it would be wise to include in the terms of the agreement definite guiding principles for the programme of targets whereby customs duties and other restrictions would be eliminated according to plan, but that the Committee administering the agreement should be empowered to modify the programme when circumstances seemed to warrant its being applied with relative flexibility.

19. One consultant, with the approval of the rest, declared that he had been favourably impressed by the outline for the possible structure of the common market prepared in Mexico, as it would facilitate the process of reduction and elimination through the system of averages for categories of goods and in line with a general concept such that its adoption might facilitate negotiations for the establishment of the market and encourage capital to co-operate in the economic development of the region.

20. Another consultant suggested that it would be useful if Argentina, as well as the ECLA secretariat, were represented at the GATT session at which the free-trade area was considered, so that they could collaborate in the work concerned. The proposal was endorsed by other consultants.

The Case of Argentina

21. A query was raised as to the situation of Argentina as a non-member of GATT, and its contractual position *vis-à-vis* third countries, if it signed a free-trade area agreement conjointly with countries which were Contracting Parties.

Attention was called to the fact that Argentina was linked by the unconditional most-favoured-nation clause with most of the leading members of GATT. If the Contracting Parties recognized the establishment of the free-trade area as far as Brazil, Chile and Uruguay were concerned, that recognition would also extend *de facto* to Argentina by virtue of the unconditional most-favoured-nation clauses in agreements to which it was a party, and there would consequently be no need for *ad hoc* bilateral negotiations with the third countries covered by the same clauses.

Recommendation by the consultants to their respective Governments with respect to the preparation of the draft agreement

22. There was a consensus regarding the aims that should be taken into account in preparing the text of a draft agreement leading to the formation of a free-trade area. The consultants accordingly proposed to present the following recommendations to their respective Governments:

(*a*) That, when the text of the draft agreement had been adopted by the meeting and the requisite steps had subsequently been taken in each country for its consideration, negotiation and signature by the Governments concerned, those aspects bearing on the application of the agreement which had not yet been dealt with should be the subject of joint negotiation without delay;

(*b*) That a sustained effort should be made to secure the consideration of the agreement by the Contracting Parties of GATT at the latter's fourteenth session, to be inaugurated on 11 May 1959. Should that prove impossible, an attempt should be made to submit the agreement to GATT at its fifteenth session, which would be held in October 1959;

(*c*) That the delegations of Brazil, Chile and Uruguay to GATT should be instructed forthwith (and to that end the consultants concerned should duly approach their respective Governments) to apply for inclusion of the foregoing item on the agenda of the fourteenth session, mentioning Argentina's interest in the matter. Should it not be possible for the agreement to be submitted to the Contracting Parties of GATT at the said fourteenth session, a brief report should in any case be transmitted to them, confirming that it would be presented shortly;

(*d*) That during the interim before the agreement came into force, the reciprocal treatment accorded to trade items (both goods and services) should be renegotiated, and every effort made to put into practice the principles established in the agreement and to impart a multilateral character, as far as possible, to concessions negotiated bilaterally; and

(*e*) That, in order to facilitate the development of a joint trade policy to govern the four countries' reciprocal relations, in view of the urgent need to remodel bilateral agreements in force among them, and the consequent necessity for the Governments concerned to begin planning their future course of action at once, the agreement on a free-trade area among the four countries or others which might join them should not be submitted for discusion to any group or international conference other than GATT, application for whose approval was compulsory. The foregoing recommendation, on which there was unanimous agreement, was dictated by additional motives over and above the reasons given at the beginning of the present sub-paragraph. In the first place, the consultants felt that the procedure adopted for the preparation of the agreement was adequate; and, secondly, they desired in this way to express their satisfaction at the manner in which the ECLA secretariat was furthering the work involved. But the recommendation did not imply that all the members of the Commission should not be kept informed as to what was being done. The forthcoming eighth session of the Commission would provide an opportunity for supplying them with the relevant information.

ADOPTION OF A DRAFT AGREEMENT ON A FREE-TRADE AREA

23. The consultants, utilizing the bases for the establishment of a free-trade area prepared beforehand by the ECLA secretariat, drew up and unanimously adopted the draft agreement on a free-trade area of which the text is reproduced in annex III.

EXTENSION OF THE TREATY TO ALL LATIN AMERICAN COUNTRIES DESIROUS OF PARTICIPATING

24. The consultants unanimously agreed to make the following suggestions to the secretariat of the Commission:

(*a*) That, as soon as the current session was over, the secretariat should report to all Latin American Governments members of the Commission on the progress so far achieved in the work of preparing a draft agreement that would offer interested Governments formulae for the solution of the pressing trade problems created by recent customs and exchange reforms in some of the countries of the southern zone of South America;

(*b*) That, in transmitting the relevant communication to the Governments, the secretariat should also point out that, in the view of the consultants, the draft agreement, apart from serving the immediate purposes mentioned, might be the point of departure for discussions of another and more comprehensive instrument, in which they considered it highly desirable that all the Latin American countries should take part; and

(*c*) That it should likewise communicate to the Latin American Governments the procedures for final negotiation of the agreement with the other countries of the region, that the consultants had proposed and would submit to the consideration of their respective Governments.

25. Furthermore, the consultants declared that they would place the following suggestions before their respective Governments:

(*a*) That, at the session of the Committee of the Twenty-one (Organization of American States) to be inaugurated at Buenos Aires on 27 April 1959, the delegations representing the Latin American Governments should be supplied with detailed information on the circumstances dictating action to expedite the conclusion of the above-mentioned agreement, so that pressing inter-Latin American trade problems might be solved and the agreement submitted for consideration to the Contracting Parties of GATT; and that the intention to leave the way open from the outset for the accession of all the Latin American countries to the agreement should be reaffirmed on that occasion;

(*b*) That the information to be imparted at Buenos Aires to all the Latin American countries should be transmitted forthwith, through governmental channels, to those conducting most trade within the southern zone, as, for instance, Bolivia, Paraguay and Peru. Such information, in combination with that supplied by the ECLA secretariat, would constitute a form of co-operation designed to provide the appropriate authorities in the countries concerned with data that might help them to reach a decision with respect to their participation in the agreement;

(*c*) That, at the session of the Trade Committee to be inaugurated at Panama City on 11 May 1959, the Latin American countries should be supplied with such additional information on the draft agreement as they might request, and that due advantage should be taken of their comments;

(*d*) That a series of inter-governmental meetings should be held in June 1959 for the purpose of the final negotiation and signing of the agreement; and that all countries desirous of participating in its negotiation should be free to do so, in accordance with the essential features of the formula devised in the course of the current session;

(*e*) That countries which might not deem it expedient or advisable at the time to participate in the original negotiation of the agreement should be assured of an opportunity of acceding to it later on. The draft proposed did in fact make provision for the renegotiation and remodelling of the agreement, apart from the possibility that it might be converted into a general agreement, drawn up in accordance with the bases which had been approved by the Latin American Governments with a view to the furtherance of existing plans for the formation of the common market, and which would be discussed at the Panama session referred to; that, in conformity with the spirit expressed, observers from the Latin American countries should be entitled to attend future discussions on request; and

(*f*) That if, during the interval preceding renegotiation, a country which had not taken part in the June negotiations wished to accede to the agreement, it would be able to do so subsequently, in accordance with the provisions laid down.

26. Lastly, the consultants stressed the following point with respect to the scope of the agreement for those countries which were prompted by the urgency of their reciprocal trade problems to subscribe to it initially. The fact that they had taken the first steps towards the economic integration of Latin America would not entitle them to any privilege in relation to countries subsequently joining the system, either through renegotiation of the agreement or through accession to the agreement as it stood.

Rio de Janeiro Protocol on the establishment of a payments agency

27. In view of the interdependence of the projected free-trade area agreement and the progressive establishments of a multilateral Latin American payments system, the meeting considered resolution 4, adopted by the second session of the Central Banks Working Group (Rio de Janeiro, 24 November - 3 December 1958). The resolution in question dealt with the establishment of a provisional system for the multilateral compensation of bilateral balances, to which end the draft protocol embodied in its text had been prepared at the session referred to. According to the draft protocol, the agency in charge of compensation operations would bring the system into effect—as a temporary measure in the process of transition towards increasing multilaterism—when at least four countries had intimated their accession to it by means of a communication addressed to the secretariat of the United Nations Economic Commission for Latin America through the respective central banks or equivalent institutions. Furthermore, resolution 5 of that same second session of the aforementioned Working Group emphasized the need for the said interim system for the transfer of balances to be closely linked with the action taken to reduce and eliminate customs duties and other trade restrictions. As was stressed during the current session, such action would be incumbent, among its other duties, on the Trade Policy and Payments Committee provided for in the agreement on a free-trade area.

Accession to the Protocol

28. The Argentine, Brazilian, Chilean and Uruguayan consultants made an announcement of which the meeting took note with satisfaction. Their respective countries had decided to join the system, and the internal requisites for their accession had just been duly complied with.

In connexion with the entry into operation of the payments agency provided for in the draft protocol, consideration was given to paragraph 88 of the report of the second session of the Central Banks Working Group. According to the paragraph in question, the fact that the draft would have to be submitted to the Trade Committee for its consideration would not in the meantime affect decisions on the part of the central banks to accede to the instrument in question.

29. With respect to the manner of formalizing their accession, since no autonomous international instrument was available for use in such cases, it was unanimously agreed that the requisite instrument would be constituted *de facto* by the set of communications from the respective central banks to the secretariat of the Commission, the text of which would reproduce in its entirety that of the above-mentioned resolution 4 containing the draft protocol, and which would be deposited with the secretariat.

30. A further co-operative suggestion with respect to the appropriate procedures for formalizing accession was that when the secretariat of the Commission had received at least four communications from central banks, it might inform all the member Governments to that effect and, further, announce to them that, pursuant to paragraph 15 of resolution 4, the payments agency therein referred to would bring the system into operation.

31. To assist in expediting the proper formalization of accessions, the group prepared the text of a communication (see annex IV), which the consultants declared themselves willing to transmit to the central banks or equivalent agencies of their respective countries. The secretariat would be responsible for sending it to the other central banks maintaining clearing accounts.

Problems deriving from the creation of the European common market

32. At the suggestion of some consultants, the group discussed procedures for the practical application of paragraph 6 of ECLA resolution 121 (VII), in which the Commission recommended that the member countries, especially those of Latin America, "should consider the desirability of carrying out consultations on the possible repercussions of the European common market".

It was also pointed out that during recent months steps had been taken by the Governments of certain southern-zone countries to make a joint reply, in so far as possible, to the memorandum transmitted by the Governments of the six countries members of the European common market to the Latin American Governments in April 1958 (see annex V). Their action had included the drafting of a reply and its transmission to all the Latin American chancelleries.

33. Since the European common market preferences had been brought into operation as from January 1959, as well as those deriving from the association between the market and a group of overseas territories, and the two new preferential systems thus constituted were causing profound concern in Latin American countries, the consultants suggested to their Argentine colleague that he should transmit the following proposal to this Government: that advantage should be taken of the opportunity afforded by the conference which the Committee of the Twenty-One (OAS) was to inaugurate at Buenos Aires on 27 April, to hold an unofficial collateral meeting for discussion of the problems referred to in the above-mentioned memorandum from the Six. The aim of the informal meeting at Buenos Aires would be to take a first step towards the desirable end of establishing points of view shared by the Latin American countries, and thus paving the way for subsequent more thorough discussion of the topic at the eighth session of the Economic Commission for Latin America at Panama City in May. With the background knowledge deriving from the preliminary exploratory discussion at Buenos Aires, the delegations at the eighth session of the Commission would find it easier to devise ways and means of initiating the practical and successful application of resolution 121 (VII).

34. With the unanimous support of the rest of the group, one consultant defined the possible procedures whereby an understanding might be reached between the Latin American countries and the Six. The following were the alternatives proposed:

(*a*) That each of the countries interested in the situation created by the Rome Treaty preferences for a specific commodity or commodities should separately contact each individual member of the Six or the group as a whole; or

(*b*) That such contacts should be effected in co-ordination with other Latin American countries whose position was the same with regard to the same commodity of commodities; or

(*c*) That they should be effected through co-ordinated action on the part of all Latin American countries *vis-à-vis* the Six as a group; and

(*d*) That until a decision had been reached as to whether joint action was or was not to be taken, and as to the form it should assume were it agreed upon, there should be a standing arrangement for exchange of information among the Latin American countries on the significance and development of each one's individual contacts either with the Six as a group of with one or more of the members, and that they should support one another with respect to the points raised.

35. Another consultant—and in this connexion too there was a consensus—stressed the desirability of requesting the co-operation of the secretariat of the Commission in the gradual preparation of certain technical background data which would facilitate the determination of the policy to be adopted by the Latin American countries in face of the possible repercussions of the European common market on their economies and exports.

Among the pertinent matters which the secretariat of the Commission might usefully clarify with the active co-operation of each of the interested countries, mention was made of the following:

(*a*) Statutory aspects of the European common market which would affect the economies and exports of the Latin American countries in general and which might warrant joint negotiations with the Six; and

(*b*) Repercussions of the system of preferences established by the Rome Treaty on the contractual position of the staple exports of each of the Latin American countries, as well as with respect to such negotiation of existing agreements as was provided for in the Rome Treaty, article 234, paragraph 2.

Santiago, Chile, 16 April 1959.

Annex I

SUMMARY OF THE STATEMENT MADE BY MR. EDMUNDO BARBOSO DA SILVA, ON 6 APRIL 1959

The following is a summary of the statement made by Mr. Barbosa da Silva (Brazil), at the suggestion of the Argentine consultant, on the events subsequent to the first series of consultations on trade policy held in late August and early September 1958 and on certain matters then raised.

During the initial series of consultative meetings it was pointed out that, once the relevant bilateral foreign-trade agreements had been amended, the countries of the region should take action, at the national or international level, for the gradual build-up of the common market. The consultants clearly agreed that the creation of effective tariff machinery was the best way of satisfying the requirements of the various Latin American countries, as regards achieving progressive complementarity, through trade on competitive bases and that the establishment of such bases would be facilitated by gradually abolishing customs barriers between the participating countries. Hence, prior to the creation of the common market, a series of bilateral or sub-regional negotiations based on tariff preferences should be held. At the same time the idea of extending the common market to the whole of Latin America should be preserved, even though a start might be made with partial groupings. It was felt that Argentina, Brazil, Chile and Uruguay might perhaps constitute or initiate a regional unit of that type because certain problems were common to them all and because they had to take action to meet the new circumstances arising from recent tariff and exchange reforms. As those countries, with the exception of Argentina, were members of GATT, they were able to bring the question of preferences before it. But before they did so, an attempt was made to inform all the Latin American countries of the intended move during the conference of foreign ministers, held at Washington in September 1958, and, so far as possible, to enlist their support. Unfortunately, the matter could not be dealt with as fully as was necessary and it was only referred to in the press release issued at the end of the conference.

The original idea was that the conference of foreign ministers should approve a text to be submitted to GATT as the basis for a request to the effect that certain clauses in the General Agreement should be waived in order to facilitate the establishment of the common market. As that idea could not be carried out, the Latin American countries were invited to subscribe to a declaration, which was signed by eleven of them at Rio de Janeiro on 31 October 1958. On the basis of that declaration, Brazil and Chile (members of GATT), with the support of Argentina (a non-member), formulated and sponsored a proposal to the thirteenth session of GATT. It was hoped that the active support of Uruguay could subsequently be enlisted. While the relevant agreement reached during the first series of consultative meetings suggested a proposal based on article XXV 5, it transpired in practice that other bases would be more appropriate.

The matter was discussed at Geneva and it appeared that the following three articles of GATT might be invoked:

(*a*) Article XXX, which empowers the Contracting Parties to amend the provisions of GATT:

(*b*) Article XXV 5, which allows a Contracting Party to waive an obligation imposed by the General Agreement provided it is approved by a two-thirds majority; and

(*c*) Article XXIV, which lays down the conditions for the formation of a customs union or of a free-trade area.

The above three articles prompted the following considerations:

(1) It was felt that an amendment to article I 2, made on the basis of article XXX, for the purpose of treating the preferential tariff system as one of the exceptions to the most-favoured-nation clause (article I 1), would have serious draw-

backs. In any case, even though it might have some advantages, it would require the unanimous agreement of the Contracting Parties. Furthermore, the Latin American countries requesting the amendment would be compelled to submit a very detailed plan and schedule to be implemented within a specified period. That plan and schedule, besides requiring the unanimous approval of the Contracting Parties to GATT—which in itself might prove difficult—might also tend to consolidate inter-Latin American preference margins and thus jeopardize the subsequent establishment of a customs union or a free-trade area in the region.

(2) To invoke article XXV 5 might be somewhat risky. By means of subtle distinctions in the wording of the waiver, the Contracting Parties to GATT might to some extent frustrate the aims of the Latin American countries. That provision was also more suitable for sectoral integration and not for the broader type required for Latin America.

(3) To proceed in accordance with article XXIV 7 to 10 seemed a better proposition. Both in the case of the customs union and the free trade area mentioned in that article, the participating countries were not required from the outset to grant tariff compensations to the other members of GATT.

Once the legal aspects had been studied in Geneva, the Brazilian delegation approached Mr. Eric Whyndam White, the Executive Secretary of GATT, and his deputy, Mr. Jean Royer, who thought it better not to frame precise legal provisions, because the plan and schedule were not yet in existence, but merely to inform GATT at its thirteenth session of the common intention to integrate the Latin American economies in due course. The communication to that effect would stress the desire of certain countries in the southern zone of South America to adopt measures for the attainment of the final objective.

The GATT secretariat also recommended that a committee composed of Contracting Parties should be set up to deal with and co-operate in the eventual formulation of inter-Latin American preferences and for that purpose to keep in touch with the Latin American countries concerned.

On several occasions the Brazilian delegation contacted representatives of the interested Latin American countries, particularly the delegations of Chile and Uruguay. In view of the importance of United States and United Kingdom views in GATT, the Brazilian delegation also consulted representatives of those countries.

So far as United States opinion was concerned,

(*a*) The United States delegation supported the principle of integrating the Latin American economies, always provided that it was carried out on satisfactory bases and that it did not lead to the establishment of customs or other barriers between Latin America and third countries;

(*b*) On 26 August 1958 in Rio de Janeiro a United States memorandum was transmitted to the Brazilian Minister for Foreign Affairs and subsequently brought to the attention of representatives attending the first series of consultations held in Santiago. Paragraph 3 concerned the United States attitude to the formation of regional preference arrangements. It referred to waivers in specific cases of integration covering certain sectors of a regional economy—for example, the procedure followed for drawing up the Treaty of the European Coal and Steel Community—and not to waivers from the pertinent rules of GATT for the purpose of establishing an intra-regional preference;

(*c*) Should the Latin American countries be unable to submit a plan or schedule to GATT at its thirteenth session in accordance with the provisions of article XXIV, the United States delegation thought it perhaps wise to accept the suggestion made by the GATT secretariat to the effect that the working group already referred to should be set up for the purpose of studying the matter and examining the legal framework for the instruments in question on the basis of the General Agreement.

While this work was going on, Mr. Thomas Mann, Deputy Under-Secretary for Economic Affairs of the State Department at Washington, arrived at Geneva. He sympathized strongly with the common market plans which the Latin American countries had been discussing and confirmed the interpretation given by the United States delegation in paragraph 3 of the August memorandum. He said that perhaps the Latin American countries would have to negotiate provisional instruments, in order to maintain the *de facto* preferential arrangements already in existence between them until it was possible to form a customs union or a free-trade area. He added that on principle his Government disliked preferences because they were opposed by a powerful body of opinion in his country. If Argentina, Brazil, Chile and Uruguay wished to negotiate preferential instruments immediately, he considered the suggestion made by the GATT secretariat very apposite, namely, that no specific juridical framework should be given at present to the integration movement and that a small *ad hoc* group of Contracting Parties, meeting perhaps in Washington, should be created to maintain contact with the Latin American countries concerned. In that way, and without raising the question of principle underlying regional preferences—the preferential clause for Latin America—the countries of the region would still be in a position to negotiate special arrangements among themselves and at the same time could be gradually working out specific lines of policy. Mr. Mann also pointed out that the preliminary integration period should perhaps be limited to five years, after which an attempt would be made to form the free-trade area or the customs union.

The Brazilian and Chilean delegations did not wish to commit themselves in such a delicate matter as the suggested *ad hoc* group and still lacked the background material necessary to make further progress towards the preferential tariff. As a result of their contacts both with the countries mentioned and with others, they therefore decided to draw up, on 22 November 1958, a joint statement of aims for submission to the Contracting Parties. It mentioned the Rio declaration of 31 October and also announced that the matter would definitely be brought to the consideration of GATT as soon as the practical arrangements were concluded. The Contracting Parties took note of that declaration and expressed their intention of helping to expedite the process.

Annex II

Comments regarding the attitude of the United States towards Latin American common market arrangements

(1) The United States believes that closer economic integration of the countries of Latin America is a highly desirable objective. It is, therefore, sympathetic toward efforts to establish markets on a regional basis which will improve the welfare of peoples both within and outside the market area.

(2) The United States would gladly see the establishment in Latin America of customs unions or free-trade areas which satisfy criteria in article XXIV of the General Agreement on Tariffs and Trade. This is to say that the United States favours such arrangements as long as they (*a*) eliminate customs duties and other restrictions on trade with regard to substantially all of the products originating in the territories of members; and

(*b*) provide for a level of customs duties which, on the whole, is no higher or more restrictive than those which were in effect before the establishment of the customs union or free-trade area.

(3) Regarding the formation of regional preference arrangements which do not satisfy the criteria of GATT for customs unions or free-trade areas,

(*a*) The United States is ready in specific cases to support waivers in GATT or adjustments in its bilateral agreements with the affected Latin American nations in order to accommodate special customs arrangements, provided that such arrangements would promote the efficient allocation of resources on a competitive basis and bring about an improvement in Latin American living standards.

(*b*) Judgement by the United States as to the degree to which any particular proposals meet such objectives would depend to a considerable degree on the extent to which such proposals would bring about the establishment of a true common market, that is, one which would promote full competition in the new market area among the various producers of the commodities covered by the arrangement. Account also would have to be taken of the degree to which a particular proposal appeared likely to produce an increase in trade with countries not members of the arrangement as well as those within the new market area.

Regarding the question of the attitudes by the Latin American countries toward the European common market and the positions taken thereon by the Latin American countries in the GATT, the United States believes that recognition should be given to the important progress which was attained at the Intersessional Committee Meeting of GATT in working out procedures for consultation. It is the view of the United States that the interests of third countries would be best protected if such procedures were given an adequate opportunity to function.

Embassy of the United States of America,
Rio de Janeiro, 26 August 1958.

Annex III

DRAFT AGREEMENT ON A FREE-TRADE AREA

The Governments of .... have agreed to formulate the following:

DECLARATION OF PRINCIPLES

I

The Contracting Parties are following with deep interest the work being done on the possible establishment of the Latin American common market and are prepared to examine the recommendations submitted for their consideration in a constructive spirit.

However, urgent problems affecting their reciprocal trade as a result of recent tariff and exchange reforms have induced them to seek a prompt solution by means of a free-trade area which will lead to the abolition of prevailing forms of bilateralism and give a decisive impulse to trade movements recently weakened by adverse factors which it is urgent to eliminate.

II

Apart from this immediate objective, the free-trade area will be a good starting-point for those efforts aimed at the formation of the Latin American common market. The Contracting Parties declare their complete readiness to renegotiate this Agreement with the participation of as many Latin American countries as possible, as soon as there is a concurrence of views on the specific solutions to this problem which is of vital importance for promoting economic development and raising the level of living of peoples.

Meanwhile, the Agreement shall be open for accession by other Latin American countries and to this end the Contracting Parties have sought to impart the greatest possible flexibility to its provisions. Convinced that unevenness in the economic development of individual countries may definitely have the effect of impairing good relations between them, the signatories of this Agreement have made provision for the adoption of special measures favouring those which are less developed.

III

This Agreement is conceived essentially as a dynamic instrument. The massive growth of the population and the pressing need to improve rapidly its level of living will considerably boost the increase in collective demand. It is for the purpose of meeting this steadily growing demand that the economic integration effort must be carried out. New industries with complex techniques and increasingly large markets for what is now produced will create conditions which will facilitate the smooth and gradual adaptation of existing activities—whether primary or industrial—to the new patterns of reciprocal trade.

The Agreement must also contain flexible provisions designed to ensure that progress towards economic integration, far from causing a contraction in the output of existing activities, will, on the contrary, provide strong incentives for their growth and improvement and, through the efficient employment of resources, help them to work out increasingly productive forms of operation.

IV

Thus, the provisions of this Agreement are based on our actual economic requirements and the signatories have constantly striven to reconcile them with the fundamental principles of existing instruments which govern international trade. The aim of building up trade between the Latin American countries on an ever-increasing scale may be wholly conciliated with that of expanding trade with the rest of the world. The Contracting Parties fully recognize the vital importance of this trade for their economic development. Integration is an essential factor in reducing costs and may strengthen the position of the Latin American export industry. The greater the facilities granted to such exports of manufactures and the more accessible the markets of the industrialized and other countries in the rest of the world become to the primary production of Latin America, so much the greater will be their ability to participate to good advantage in greater flows of international trade.

To this end, the efforts of the Latin American countries must be properly co-ordinated in order to safeguard and stimulate their foreign trade, both in general and *vis-à-vis* specific items. This Agreement constitutes the most suitable means of promoting this co-ordination.

V

We are embarking on an experiment of enormous significance. Latin America cannot increase its rate of economic growth unless its scale of industrialization transcends the narrow orbit of national markets.

This Agreement provides the contracting countries with tools with which to overcome such serious obstacles and to go on doing so. It will be necessary to ensure a harmonious relationship between these tools and the results of the national economic development efforts now being made. However, there are two factors of fundamental importance: the spirit of frank multilateralism inspiring the Agreement and the firm conviction that the system of gradual economic integration at which it is aimed may be achieved only if its benefits are reciprocally shared by each and every one of the Contracting Parties, which hereby conclude the following:

AGREEMENT ON A FREE-TRADE AREA PLAN

Article 1. The Contracting Parties hereby establish a free-trade area which shall be fully operational within a period not longer than ten years from the date on which the Agreement enters into force.

Article 2. Within the period laid down in article 1, the Contracting Parties shall gradually eliminate, in so far as their reciprocal trade is concerned, the charges and other restrictions which are imposed on or impede trade between them in items originating from or destined for any Contracting Party. Such measures of elimination shall be applied to substantially all the trade between the Contracting Parties.

For the purposes of this Agreement, the term "charges" shall be deemed to be customs duties as well as customs and exchange surcharges, prior deposits and other similar charges of equivalent effect; and the term "other restrictions" shall be deemed to be administrative, quantitative, exchange or other restrictions placed on imports and exports.

SCHEDULE

Article 3. The objectives set forth in the preceding article shall be achieved by means of successive negotiations to be held each year within the Trade and Payments Committee set up in accordance with article 25.

Article 4. As a result of the negotiations referred to in article 3 and on the basis of reciprocal concessions, individual lists shall be compiled of reductions in charges and other restrictions which each Contracting Party shall grant to all the other Contracting Parties.

Article 5. Such individual lists of reductions in charges and other restrictions shall contain the greatest possible number of items in which trade is carried on between the Contracting Parties. Moreover, an effort shall be made gradually to add new items to these lists in order to promote the diversification and expansion of reciprocal trade.

Article 6. As a result of the negotiations provided for in article 3, each Contracting Party shall reduce each year, in respect of imports from the other Contracting Parties, by at least eight (8) per cent cumulatively the weighted average of the charges in force for third countries at the time the Agreement enters into force.

Article 7. When the import régime of one Contracting Party is such that it does not permit the due equivalent to be established with the reductions in charges granted by other Contracting Parties, the counterpart of these reductions shall be made up by the abolition or curtailment of other restrictions.

Article 8. The lists referred to in article 4 shall be formally embodied in Protocols which shall be implemented by government action in each country. The initial lists resulting from the first series of negotiations shall be subsequently amplified from 1 November 1961 onwards and the new lists thus amplified shall remain in force for successive periods, which shall coincide with each calendar year.

Article 9. The items which may be included in all the individual lists of the Contracting Parties shall be consolidated by the Committee in a basic list in respect of which charges and other restrictions shall be eliminated in the form laid down in articles 1 and 2.

Article 10. The reductions in charges and other restrictions granted by a Contracting Party shall be irrevocable. However, and in exceptional cases, those included in individual lists may be withdrawn when the other Contracting Parties have registered their approval. Should any Contracting Party withhold its approval, the existence of inadequately compensated interests must be proved. For the Contracting Party withdrawing a reduction the obligations consequent upon article 6 shall remain fully in force.

Article 11. The basic list referred to in article 9 shall include items the value of which in aggregate trade between the Contracting Parties amounts at least to the following proportions:

Twenty-five (25) per cent from 1 January 1963 onwards;

Fifty (50) per cent from 1 January 1966 onwards;

Seventy-five (75) per cent from 1 January 1969 onwards;

Eighty (80) per cent from 1 January 1970 onwards.

Article 12. Calculation of the proportions referred to in articles 6 and 11 shall be based on the annual mean value of trade in the three-year period preceding the year in which each series of negotiations is held.

MOST-FAVOURED-NATION CLAUSE

Article 13. Any advantages, exemptions or privileges that are granted by one Contracting Party in respect of items originating in the territory of another Contracting Party—or in a country not a party to the Agreement—or in respect of items exported to any country, shall be extended immediately and unconditionally to any similar item originating in or destined for the territory of the other Contracting Party.

Article 14. The rule laid down in the preceding article shall apply to customs duties and charges of any kind whatsoever affecting imports or exports; to internal or national taxes and charges; to regulations and formalities connected with imports or exports; to laws, regulations and provisions of every type referring to sale, offering for sale, purchase, transport, distribution and consumption in the internal market; and to the provisions and practices arising from the exchange régime.

Article 15. The general most-favoured-nation treatment provided for in article 13 shall not apply to advantages, exemptions and privileges which are:

(*a*) already granted or which may be granted by virtue of agreements between Contracting Parties or between Contracting Parties and third countries, for the purpose of facilitating border trade; or

(*b*) which may be granted between Contracting Parties or between Contracting Parties and third countries in Latin America, by virtue of specific agreements negotiated in the Committee for the purposes of industrial complementarity.

Article 16. So far as internal or national taxes and other charges are concerned, items originating in the territory of a Contracting Party shall enjoy within the territory of another

Contracting Party treatment no less favourable than that granted to similar domestic items.

REGIME FOR CUSTOMS AND FOR THE ELIMINATION OF OTHER RESTRICTIONS

Article 17. No modification in the customs tariff of a Contracting Party may confer upon imports a treatment less favourable than that obtaining at the time of the reform in respect of items included in the individual lists referred to in article 4.

Article 18. The Contracting Parties shall adopt at the earliest opportunity a standard customs nomenclature, together with common definitions, procedures and customs regulations, and shall co-ordinate their national statistics, taking into account the provisions of this Agreement.

Article 19. The Contracting Parties shall seek to establish a smooth relationship between import and export régimes and the respective fiscal and exchange procedures applied to the rest of the world, particularly when this is necessary to ensure equitable conditions between the Contracting Parties or to facilitate their industrial integration and complementarity.

Article 20. The Contracting Parties shall endeavour, in a progressive and co-ordinated manner, to simplify among themselves the administrative, quantitative, exchange, financial and other aspects of their foreign trade régime.

SAFEGUARD CLAUSES

Article 21. The Contracting Parties may, as an exceptional measure, grant to a Contracting Party the power to impose quantitative restrictions or other measures of equivalent effect:

(*a*) on imports of items which are intended to complement basic domestic products which are important for the national economy or which are included in special programmes promoted by the Government, always provided that such restrictions do not signify a reduction in the effective consumption capacity of the importing country; and

(*b*) on exports, when such action is essential to safeguard the domestic supply of specific items or when it is justified for balance-of-payments reasons.

The respective régimes shall operate with the greatest possible automaticity.

Article 22. The Contracting Parties shall co-ordinate their respective programmes for producing, importing and exporting the items affected by the restrictions referred to in the preceding article, so as to ensure, while such restrictions are maintained, minimum quantities which do not fall below traditional trade levels.

Article 23. The Committee may approve temporary measures whereby the Contracting Parties grant exclusive concessions to other Contracting Parties in order to expedite the development of specific lines of production.

Article 24. Provided the Committee is informed in advance, any Contracting Party may put into effect, on an emergency basis, special measures adapted to each particular case, for the purpose of safeguarding national interests, when

(*a*) the balance-of-payments situation *vis-à-vis* the other Contracting Parties as a whole justifies this; or

(*b*) as a result of unforeseen factors, serious maladjustments arise in some important sector of the national economy, which affect the level of employment or the rate of economic development.

As soon as the Committee is so informed, it shall examine the causes which have prompted the application of such measures and shall promote the collective action it deems appropriate to rectify and eliminate those causes.

If the application of these special measures is prolonged for more than one year, the Committee, acting on its own initiative or at the request of any of the Contracting Parties, shall propose that negotiations should be renewed for the purpose of re-establishing the reciprocal situation previously in existence or of seeking new ways and means of restoring equilibrium.

TRADE AND PAYMENTS COMMITTEE

Article 25. In order to execute and administer the Agreement and facilitate the attainment of the objectives of the free-trade area, a Trade and Payments Committee shall be set up with its headquarters in ......

In this Committee each Contracting Party shall be represented by its respective Minister of Foreign Affairs and another government official.

Each Contracting Party shall appoint a permanent alternate representative and the advisers it deems necessary.

The Committee shall meet within ... days of the entry into force of this Agreement and at its first meeting shall appoint an executive secretary whose powers shall be defined in the rules of procedure. The Committee shall establish its rules of procedure by unanimous vote.

Article 26. The Committee shall form its own secretariat, the structure and terms of reference of which shall be established by the Contracting Parties in an appended Protocol, together with the amount to be contributed by each country participating in the Agreement.

For as long as it deems necessary, the Committee shall make use of the technical advice of the secretariat of the Economic Commission for Latin America (ECLA), which shall be transmitted through the Executive Secretary of the Committee.

The Contracting Parties shall arrange for such collaboration with the Secretary-General of the United Nations.

Article 27. The negotiations required for the development and operation of the free-trade zone shall be carried out in the Committee.

Article 28. The functions of the Committee shall be:

(*a*) To co-ordinate the trade policy of the Contracting Parties to the extent required to protect and expand their external trade inside and outside the free-trade zone, both as a whole and in relation to items that are important for the economy of one or more Contracting Parties;

(*b*) To prepare and execute a programme for the gradual reduction of restrictions on exports from the Contracting Parties to the free-trade zones;

(*c*) To establish the criteria or standards which will be adopted to designate the source of the goods that come under the scope of the present Agreement;

(*d*) To assemble and prepare the information and statistics required for the purposes envisaged in articles 6, 7, 11 and 12;

(*e*) To draw up the basic list referred to in article 9;

(*f*) In the event of complaints by the Contracting Parties that they have been affected by the tariff reform provided for in article 17, to initiate negotiations to restore the *status quo* or seek new forms of equilibrium;

(*g*) To promote the standardization of customs nomenclature and co-ordinate national statistics, in accordance with article 18 ;

(*h*) To further the equalization of duties provided for in article 19 ;

(*i*) To harmonize the trade policies of the Contracting Parties as regards transport in their reciprocal trade ;

(*j*) To correlate anti-smuggling procedures as well as measures to prevent under- and over-invoicing of trade items ;

(*k*) To examine and settle complaints from Contracting Parties with regard to acts or practices which alter or are liable to alter normal conditions for competitive trade in the free-trade area ;

(*l*) To review the progress of the Agreement and the lines along which it might best be developed, in order to maintain a balance between reciprocal benefits at rising levels of trade ;

(*m*) To define the concept of border trade for the purposes of this Agreement ; and

(*n*) To submit to the Contracting Parties an annual progress report on the Agreement.

Article 29. The Committee may request the collaboration of national and international organizations for the attainment of its objectives whenever it deems this advisable.

Article 30. The Committee shall promote or agree to, as the case may be, the application of whatever measures it considers appropriate for averting or remedying the persistent and marked disequilibria that may be observed in the trade transactions of each Contracting Party with the other Parties as a whole.

Article 31. The Committee may temporarily exempt countries that are relatively less developed from certain obligations as regards reciprocity of concessions and the gradual reduction and elimination of charges and other restrictions.

Article 32. The decisions taken by the Committee must be adopted unanimously during the first two years, after which the Contracting Parties shall determine, also unanimously, the system of voting to be adopted and the quorum required for each type of decision.

[*Alternative article 32*

The decisions taken by the Committee must be adopted unanimously during the first three years, except in the case of the preliminary lists submitted by countries desirous of participating in the Agreement, which shall be carried by a two-thirds majority. Thereafter, the Contracting Parties shall determine, also unanimously, the system of voting to be adopted and the quorum required for each type of decision.]

PAYMENTS

Article 33. The Contracting Parties shall adapt their reciprocal payments relations to the general objectives of the present Agreement, and shall harmonize their exchange and monetary systems so as to attain these objectives in such a way as to ensure maximum efficiency and expansion of trade in the area compatible with the Contracting Parties' respective balances of payments.

Article 34. The Trade and Payments Committee shall deal with all common problems arising from the reciprocal payments relations of the Contracting Parties and from their participation in any systems to which they had previously acceded in order to solve temporary payment difficulties. For these purposes the Trade and Payments Committee shall have the following terms of reference :

(*a*) It shall have sole competence for the administration of any multilateral agreements or arrangements entered into by the Contracting Parties for the purpose of regulating their reciprocal payments relations ;

(*b*) It may delegate specific executive functions to specialized bodies ;

(*c*) It may carry out the requisite negotiations with the Contracting Parties, other countries or international specialized agencies to ensure that the payments relations of the Contracting Parties develop in conformity with the latters' common objectives and facilitate the attainment of the general aims of the present Agreement ;

(*d*) It shall co-ordinate the role of the Contracting Parties in respect to monetary agreements in which they participate with other countries.

Article 35. In concluding multilateral payment agreements or arrangements, the Contracting Parties shall try to attain the highest possible level of convertibility compatible with the general aims of the present Agreement and with their respective balances of payments.

Article 36. All multilateral payments agreements or arrangements among the Contracting Parties shall be negotiated in the Trade and Payments Committee.

MISCELLANEOUS PROVISIONS

Article 37. It the Contracting Parties deem it necessary, they may conclude among themselves agreements to regulate specific trade or economic matters for which no special provision has been made in this Agreement provided that they are consistent with its purport.

Article 38. The Contracting Parties shall guarantee free transit for goods from the territory of any Party to that of any other within the free-trade area.

Such goods in transit shall be exempt from duties, taxes or charges of any kind. They shall, however, be subject to payment of the rates usually charged for services as well as for public safety, public health and police measures.

Article 39. No provision of the present Agreement shall be construed to constitute an obstacle to the adoption and execution of measures intended for :

(*a*) The protection of public morality ;

(*b*) The application of safety laws and regulations ;

(*c*) The control of imports and exports of arms, ammunition and war materials, and, in exceptional circumstances, of all other military equipment ;

(*d*) The protection of public health and human, animal and vegetable life ;

(*e*) Imports and exports of gold and silver ;

(*f*) The protection of national property of an artistic, historic or archaeological value ; and

(*g*) The export, utilization and consumption of nuclear materials, radio-active products or any other material that may be used in the development or exploitation of nuclear energy.

Article 40. The present Agreement is open to accession by all Latin American countries.

The accession of new countries shall be effective as from the date on which the instrument of ratification of the respective Protocol is deposited by the acceding country.

Once the accession has been formalized, the Trade and

Payments Committee shall fix the date on which the negotiations referred to in article 4 shall be undertaken.

Acceding countries shall grant reductions in charges and other restrictions not less than the percentages mentioned in article 6 that have accumulated during the period dating from the entry into force of the Agreement.

As an exceptional measure and in order to facilitate the accession of other countries, the Trade and Payments Committee may, during the remaining years of the period provided for in article 1, rearrange part of the percentages accumulated in the previous years.

Article 41. The present Agreement shall enter into effect on the date of deposit of the third instrument of ratification, in the case of the first three ratifying countries, and on the date of deposit of the respective instruments of ratification, in the case of the other countries.

Article 42. The Government of .... shall be the depository of the present Agreement and shall send certified true copies of it to the Ministries of Foreign Affairs of each Contracting Party and shall likewise notify them of the deposit of the instruments of ratification or of any denunciation of the Agreement.

Article 43. The duration of the Agreement will be unlimited. Ten years from the date of its entry into force, it may be denounced by any Contracting Party provided one year's notice is given.

APPENDED PROTOCOL

Pending ratification of the present Agreement by the Contracting Parties in conformity with their respective institutional procedures, a Provisional Committee shall be set up consisting of a representative of each Party.

This Committee shall work in close contact with the Economic Commission for Latin America and shall make use of its technical advice.

Annex IV

LETTER OF ACCESSION TO THE RIO DE JANEIRO PROTOCOL

.... 1959

Sir,

I have the honour to inform you that this Central Bank, with the authorization of the Government, agrees to participate in the operations for the multilateral compensation of bilateral balances provided for in the draft protocol, drawn up by the Central Banks Working Group at its second session, held at Rio de Janeiro from 24 November to 3 December 1958, which reads as follows:

Resolution 4

DRAFT PROTOCOL FOR THE ESTABLISHMENT OF A LATIN AMERICAN SYSTEM FOR THE MULTILATERAL COMPENSATION OF BILATERAL BALANCES

The Central Banks Working Group,

Bearing in mind:

(*a*) The necessity of creating, in respect of payments, conditions conducive to the widening of national markets and to the subsequent and progressive establishment of a Latin American regional market;

(*b*) The desirability of stabilizing trade between individual inter-Latin American clearing-account countries and the group as a whole, with a view to the removal of marked or persistent disequilibria by means of an increase instead of a contraction in trade in goods and services;

(*c*) That, in pursuance of these aims, the central banks of countries maintaining inter-Latin American clearing accounts based on the Montevideo Standard Agreement and represented at this session deem it advisable that a system should be established for the multilateral compensation of bilateral balances;

(*d*) That all countries in the area with bilateral clearing accounts based on the principles of the Standard Agreement should be induced to join such a system on terms of reciprocal benefits;

(*e*) That, in order to bring the system into operation, it is essential that an Agency should be put in charge of its activities, and that the secretariat of the United Nations Economic Commission for Latin America has accepted the suggestion, made at the second session of the Central Banks Working Group, to the effect that it should undertake these duties;

(*f*) That the system in question will constitute only one stage further in the programme for the attainment of more advanced and generalized forms of multilateralism in Latin America designed to promote more extensive economic relations among all of its republics and with the rest of the world;

(*g*) That, whereas part of the operations inherent in such a system can be carried out only after prior consultation and, in each case, with the agreement of the Contracting Parties, these Parties have announced their intention of co-operating to the fullest possible extent in the execution of such operations,

Decides to submit to the Trade Committee the following draft protocol for the establishment of a Latin American system for the multilateral compensation of bilateral balances with a view to its consideration by the Governments of the Latin American countries which maintain, or are parties to, clearing agreements based on the Montevideo Standard Payments Agreement:

Article 1. The Contracting Parties to the Latin American system for the multilateral compensation of bilateral balances shall be those which hold two or more inter-Latin American bilateral clearing accounts based on the Montevideo Standard Agreement and which indicate their intention of acceding to this Protocol by means of the communication referred to in article 15 below.

Article 2. The Contracting Parties shall effect their mutual monetary compensations in conformity with the conditions laid down in this Protocol. The compensations shall be classified as first or second category as provided for in articles 6 and 7.

Article 3. For the purposes of the provisions set forth in the preceding article, balances or availabilities shall be deemed to be those in the master accounts held, under bilateral payments agreements, by the respective central banks or equivalent institutions.

Article 4. The secretariat of the United Nations Economic Commission for Latin America shall be the Agency in charge of compensation operations.

Article 5. The first-category compensations to which this Protocol refers shall be effected at the end of every three calendar months.

Article 6. First-category compensations are those which are intended to reduce one or more of the debit balances held by each Contracting Party involved in the operation through a corresponding equivalent reduction in one or more of its credit balances.

Article 7. Second-category compensations are those which are intended to transfer balances from one account to another. When the respective movements are being planned by the Agency, the corresponding margins of bilateral credit shall also be taken into account.

Article 8.

(*a*) First-category compensations may be effected without the prior consent of the respective central banks or equivalent institutions.

(*b*) The respective central banks or equivalent institutions shall be consulted, and their consent obtained, before any second-category compensations may be effected.

(*c*) In proposing second-category compensations, the Agency shall endeavour to facilitate those which will help to settle debtor-creditor situations, due attention being paid to the need for preventing any interruption in the flow of trade between Contracting Parties.

Article 9. The Contracting Parties, on their own initiative or on the proposals of the Agency, may widen the range of compensation, establishing for that purpose, among other regulations, a fixed percentage of bilateral credits as a ceiling in order to enable such compensation to be effected without prior consultation.

Article 10. In calculating the balances available for first-category compensations, the Agency shall set aside, at the request of the respective central banks or equivalent institutions, amounts sufficient to cover possible short-term disequilibria. In making such a request, the country concerned shall take into account its corresponding credit availabilities.

Article 11. A central bank or equivalent institution intending to avail itself of the provision set forth in the preceding article shall submit to the Agency, at least ten days before the end of the current period of three calendar months, information on the amounts which it wishes to be set aside and the reasons therefor.

Article 12. After making the necessary consultations, the Agency may take into consideration for transfer purposes any balances in bilateral accounts maintained by Contracting Parties with non-signatory States.

Article 13. The central banks or equivalent institutions shall transmit to the Agency:

(*a*) Information on the purport and progress of the bilateral payments agreements referred to in resolution 2, adopted at the first session of the Central Banks Working Group;

(*b*) Monthly statements concerning their reciprocal bilateral accounts as well as bilateral accounts maintained with countries outside the area, which they would be prepared to compensate;

(*c*) Any other information that they may consider useful for facilitating the work of the Agency, including data relating to their bilateral accounts with countries outside the area;

Article 14. On the proposal of the central banks or equivalent institutions or of the Angency, the central banks, provided that they are in unanimous agreement, shall adopt any supplementary regulations that would, in their opinion, improve the operation of the system.

Article 15. The Agency may bring the system into operation when at least four countries holding inter-Latin American bilateral clearing accounts based on the Montevideo Standard Agreement have intimated their accession to the Protocol by means of a communication addressed to the secretariat of the United Nations Economic Commission for Latin America through the respective central banks or equivalent institutions.

Article 16. The present Protocol shall be valid for one year from the date on which the Agency initiates the corresponding operations, and may be extended thereafter for equal periods by tacit agreement, except in respect of Contracting Parties which inform the Agency of their decision to withdraw from the system at least three months before the expiry of the relevant period of validity.

3 December 1958

In conformity with article 15 of the draft protocol, I therefore have pleasure in transmitting to you this letter of accession.

(*Signed*) . . . .

Dr. Raúl Prebisch,
Executive Secretary,
Economic Commission for Latin America,
Santiago
Chile

Annex V

MEMORANDUM TRANSMITTED BY THE GOVERNMENTS MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY TO THE LATIN AMERICAN GOVERNMENTS

April 1958

1. The conclusion of the Rome Treaty constitutes one of the elements in a joint effort by virtue of which six western European nations wish to achieve economic and political integration. These six countries believe that they have reached a stage in their history at which such integration corresponds to the common and fundamental needs arising out of contemporary trends.

2. In signing the Rome Treaty, these six countries hope to achieve a greater measure of economic expansion as a result of the formation of large markets in which goods and the different factors of production can circulate freely. Without economic integration, Europe will be unable to develop the big industrial plants that are essential in our time to ensure for prosperity and social progress. In pursuing these objectives, the six countries of the Community are convinced that they are promoting international trade.

3. The creation of an economic unit of 165 million inhabitants with a current gross income of 180,000 million dollars in purchasing power and ever-increasing import requirements makes the Community the economic unit with the largest foreign trade in the world. Its activities will have a favourable influence on the free world's prospects of economic development, since the progress of the Community itself depends upon expanding relations with other countries.

For this reason, the Community considers that the misgivings of certain Latin American countries, aroused by the decisions taken by the six member Governments, are based on a misunderstanding. In order to dissipate such misgivings, it therefore considers it advisable to recall certain fundamental principles which inspired the six Governments during the negotiations prior to the signing of the Rome Treaty, and also to suggest that there should be an exchange of opinions with all the Latin American countries to which the Six are linked by traditional bonds.

4. In taking a definite step towards the creation of a united Europe by the establishment of joint institutions and the

progressive merger of national economies, the Governments of the member States have announced their firm intention of promoting favourable conditions for the birth of European unity and of remedying, through the formation of a broad common market, the difficulties caused by economic policies that are often divergent. This is undoubtedly the only method which will not only enable Europe to solve its own problems but will also contribute to the economic solidarity of the free world.

The members of the Community were, moreover, obliged to associate in their economic expansion the overseas countries and territories with which they have special links and to let them share in the benefits that may be expected from the attainment of their common objectives. By means of such association, the said States hope to enable the overseas territories to achieve the development to which they aspire in every sector. The association of the overseas territories with the Community is therefore one of the basic aspects of the work which the Six are anxious to carry out: in other words, the system of integration of the Six and the system of association of the overseas countries and territories constitute one single entity.

5. The Community is fully conscious of the importance to its member States and other western nations of the work which it is going to undertake. Being firmly persuaded that the Rome Treaty is perfectly compatible with the international agreements signed by the six member States, the Community's institutions consider that there is no obstacle whatsoever to the complete implementation of the provisions of the Treaty. In this spirit, the Commission of the European Economic Community has been given the task of ensuring that the provisions of the Rome Treaty are being carried out, as well as any other provisions adopted by the said institutions by virtue of the Treaty.

6. The Community wishes to affirm forthwith that its policy towards other countries will be based on the principles of international co-operation. The Six consider that the creation of a customs union and the economic integration that it would initiate will be beneficial for all and that the experience gained thereby may even be useful for launching similar ventures in other parts of the world. The sealing-off of economies in watertight compartments is an undoubted impediment to international trade and general economic expansion. Therefore any attempt to form economic areas that are more closely integrated and more dynamic economies is laudable, since these two factors are synonymous with economic progress and higher standards of living. Economic integration engenders general prosperity. In other words, it is a source of progress for the free world as a whole, since every nation is interested in raising the purchasing power of the countries with which it maintains trade relations.

7. The Community has repeatedly declared its intention of promoting international trade. Moreover, this intention derives from imperative needs.

The progressive raising of the standard of living should be reflected in a steady expansion of trade with the rest of the world and especially with countries that supply raw materials, among which those of Latin America are pre-eminent. For several reasons, it may be expected that any trade expansion on the part of the European Economic Community will have to be directed very specially towards Latin America. The Community's prosperity depends in fact on the development of its trade with other countries. Western Europe, and the six members of the Community in particular, rely on other countries to supply them with raw materials, agricultural commodities and the products they need for the industries using motive power that are the keystone of modern economies in process of expansion. They will therefore need world markets, particularly those which can supply them with essential goods. It is clear for the same reasons that the Community will have to step up its exports; the rationalization and modernization of production in the six integrated economies will be decisive factors in the development of the Community's trade and will redound to the benefit of the other countries.

8. Furthermore, in article 18 of the Treaty creating the Community, the member States have placed on record their intention of contributing to the development of international trade and the reduction of any impediment to it; for this purpose they will conclude agreements which, by means of reciprocity and mutual benefits, will help to bring customs duties down below the common level which would be authorized under a joint customs union.

Article 111 of the Treaty embodies the same spirit of international co-operation.

9. The Community would like to establish, in its relations with the Latin American countries, a pattern of closer co-operation founded on respect for the rights of both parties (principally the right to maintain a policy of economic integration in conformity with international agreements in force) and on reciprocal benefits. For this purpose, it could conclude "consultative agreements" which might serve as the framework for an examination of economic, trade and financial problems, including those relating to raw materials, which arise or are apt to arise from relations between its member States and Latin American countries by virtue of the Rome Treaty and in a spirit of reciprocity.

It would be equally timely if an attempt were to be made to lay down the basic pronciples for joint action on the part of the European Economic Community and the Latin American countries as regards trade and prices for primary commodities (such as coffee and cacao).

Lastly, the fact that the Six have prepared a programme for financing expenditure on the economic and social infrastructure in overseas countries and territories asociated with the Community is in no sense an impediment to the promotion of a policy that would favour the export of capital to Latin America.

10. In deciding to carry out the economic integration policy defined in the Rome Treaty, which would benefit both the member States and other countries, the European Economic Community welcomes the fact that the Latin American Governments are pursuing the same objectives. It is willing to support any attempt to carry out similar projects and to co-operate in this respect with the Governments concerned. It considers that the problems involved might lead to a fruitful exchange of views, if the Latin American countries agree.

11. The object of this memorandum is to indicate to the Government of .... that the problem of economic, financial and trade relations among the six countries of the European Economic Community and Latin America as a whole are being studied with the closest attention in the Community's institutions.

These institutions consider it of supreme importance that the problems involved should be studied by the corresponding bodies in Latin American countries in order that results may be compared in the near future, if possible before the end of the current year.

11 April 1958

D

REPORT OF THE SECOND SESSION OF THE TRADE COMMITTEE

E/CN.12/C.1/15/Rev.2
1 June 1959

Introduction

1. The present report reviews the proceedings of the Trade Committee at its second session,[1] held at Panama City (Panama) from 11 to 19 May 1959. The first session met at Santiago (Chile) from 19 to 29 November 1956. As detailed accounts of the Committee's activities between these two sessions appear in other documents issued by the Commission,[2] only the discussions held and the resolutions adopted at Panama City are included in the present report. In Part I, an outline of the organization of the Committee's work and of the items on its agenda is followed by a full account of the discussion of these topics. Part II contains the resolutions adopted. Lastly, the annexes comprise the list of representatives, the inaugural addresses and certain statements made in the course of the Committee's proceedings in connexion with the adoption of specific resolutions.

Part One

SECOND SESSION OF THE TRADE COMMITTEE

A. Membership, attendance and organization of work

1. Opening and closing meetings

2. At the opening meeting, held at Panama City (Panama) in the conference hall of the Palacio Justo Arosema, on 11 May 1959, an address was delivered by Mr. Alberto A. Boyd, Minister of Agriculture, Trade and Industry, who welcomed the delegations. He mentioned, in particular, the fact that the session was beginning at a time when there was a manifest tendency to envisage the close links between economic development and inter-Latin American relations from the regional standpoint (see annex II).

3. Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs of the United Nations, stated in his address that the Commission, in considering the common market, was beginning to confront the fundamental problems of regional co-operation—those relating to systematic action directed towards integration (see again annex II).

4. Mr. Arnaldo Tomás Musich, head of the delegation of Argentina, spoke on behalf of the delegations present.

5. The closing meeting took place on 19 May 1959.

2. Membership and attendance

6. The meeting was attended by representatives of the following States members of the Commission: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Netherlands, Nicaragua, Panama, Paraguay, Peru, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay and Venezuela (see annex I).

7. In accordance with paragraph 6 of the Commission's terms of reference, the following States Members of the United Nations but not members of the Commission sent representatives to attend the second session of the Trade Committee in a consultative capacity: Belgium, Canada, Czechoslovakia, Hungary, Italy, Japan, Poland, Spain, Union of Soviet Socialist Republics and United Arab Republic. Under the terms of resolution 617 (XXI) of the Economic and Social Council, the Federal Republic of Germany sent an observer (see again annex I).

8. The Credentials Committee, in accordance with rule 14 of the Commission's rules of procedure, reported at the meeting held on 18 May 1959 that the credentials of the delegations to the second session of the Trade Committee, as presented to the Executive Secretary, had been examined and found to be in order.

3. Organization of the work

(a) *Election of officers*

9. At the meeting held on 11 May 1959, the following officers were elected:

Chairman: José Garrido Torres (Brazil)

[1] The Trade Committee was established by resolution 101 (VI) of the Commission (adopted at Bogotá on 15 September 1955) for the purpose of intensifying inter-Latin American trade, without prejudice to the expansion of trade with other regions, but with due regard to the fundamental necessity of increasing over-all world trade. To that end, the Committee was requested to prepare specific proposals, consistent with the contractual commitments of Governments and taking into consideration the conditions prevailing in individual countries or areas.

[2] See especially *Annual report to the Economic and Social Council, covering the period 8 April 1958 to 23 May 1959 inclusive* (E/3246 and E/CN.12/530), Part I, paragraphs 6-19.

First Vice-Chairman: Juan Pardo Heeren (Peru)

Second Vice-Chairman: Pedro Chamorro (Paraguay)

Rapporteur: Germánico Salgado (Ecuador)

(b) *Secretariat*

10. The secretariat of the Committee was composed of the following members:

Philippe de Seynes, Under-Secretary for Economic and Social Affairs

Raúl Prebisch, Executive Secretary, Economic Commission for Latin America

Louis N. Swenson, Deputy Director, Economic Commission for Latin America

Wladyslaw R. Malinowski, Director, Regional Commissions Section, Department of Economic and Social Affairs

Alfonso Santa Cruz, Secretary of the Commission

Christóbal Lara Beautell, Director, Mexico Office

Esteban Ivovich, Director, Trade Policy Division, Economic Commission for Latin America, Secretary of the Committee

Technical advisers: Nuno F. de Figueiredo, Alberto Solá, Alejandro Power

B. Agenda

11. At the meeting held on 11 May 1959, the Committee adopted the following agenda:

1. Opening addresses
2. Election of officers
3. Adoption of the agenda
4. Common market
   (*a*) Bases for the establishment of the common market
   (*b*) Study of its possible structure
      (i) Objectives
      (ii) Juridical form
      (iii) Programme for the first stage
         Customs and liberalization régime
         Juridical form
         Classification of products
         Most-favoured-nation treatment
         Régime for relatively less developed countries
         Specific complementarity and specialization agreements
      (iv) Size of the market and initial groupings
      (v) Treaties on trade or economic matters not covered by the agreement
      (vi) Committee
   (c) Basic principles for the operation of a common market

   Documents:

   The Latin American common market and the multilateral payments system (Part One: Report by the secretariat; Part Two: Reports of the first and second sessions of the Working Group on the Latin American Regional Market) (E/CN.12/C.1/9).

   Consultations on trade policy. Note by the secretariat (E/CN.12/C.1/11).

   Consultations on trade policy. II. Meetings held at Santiago, Chile (April 1959), with a Note by the secretariat (E/CN.12/C.1/11/Add.1).

   Consultations on trade policy. III. Meetings held at Caracas, Venezuela (May 1959), with a Note by the secretariat (E/CN.12/C.1/11/Add.2).

   Government policies affecting foreign private investment in a Latin American regional market (E/CN.12/C.1/12).

   Influence of the common market on Latin American economic development (E/CN.12/C.1/13).

   The railway rolling stock industry in Latin America. Note by the Executive Secretary (E/CN.12/508).

   Fiscal, trade policy and methodological questions bearing on the establishment of the Central American common market (E/CN.12/497).

   Latin American transport problems. Possible studies bearing on the common market (E/CN.12/C.1/14).

5. *Payments*

   Establishment of a system for the multilateral compensation of bilateral balances, as a first step toward the multilateralism of payment inherent in the common market.

   Documents:

   Report of the second session of the Central Banks Working Group. Note by the secretariat (E/CN.12/C.1/10).

C. Account of proceedings

1. General statements

12. In his statement the Executive Secretary said that the move to set up the common market responded to the needs of the economy of Latin America at its present stage of development and stressed that it was important, as regards the future work dealing with the bases of the market, for the States members of the Committee to give the secretariat the necessary general instructions. (The full text of the statement is given in annex II.)

13. The representative of *Cuba* said that his Government favoured the establishment of the Latin American common market and was prepared to co-operate actively for its success. Certain peculiarities in the structure of the Cuban economy—high costs of production, a traditional free-trade system, the use of customs duties as the only means of protection, the export of agricultural produce and the early stages of industrial development—might have their effect on Cuba's accession. He expressed interest in the problems connected with trade in agricultural commodities within the common market and in those bearing on the co-ordination and specialization of agricultural production and on protection and differential treatment to guarantee industrial development. He mentioned other matters connected with the common market that were of concern to his Government and which arose from its participation in the General Agreement on Tariffs and Trade (GATT), from its trade with foreign markets which must be increased and from the multilateral principle to which it desired to see full effect given in trade within the area and with the rest of the world.

14. The representative of *Chile* stated that his Government agreed with the bases and principles for the establishment of the Latin American market prepared by the Working Group on the Latin American Regional Market at its session in Mexico. That did not mean, however, that it was not prepared to consider any other proposals which might bring the same objective within the reach of the Latin American countries more quickly or efficiently.

15. The representative of *Ecuador* stated that his country supported the establishment of the common market because it had a small internal market. Referring to the recommendations of the Working Group, he said that the system of averages—a formula which might prove profitable—should be studied with care. The special system for the relatively less developed countries was of particular interest to Ecuador as in the absence of such a system countries might continue to be nothing more than purveyors of raw materials. At the same time it would be as well to study the possibility of prolonging the first stage provided for in the Working Group's recommendations. The greater opportunities to which the common market would give rise would help to discourage the tendency to economic autarky with its negative consequences. In another connexion, Ecuador would be interested in the exchange of technical information and the investment of foreign capital, plans which would also profit from the establishment of the common market.

16. The *United States* representative drew attention to what was, in his view, the unsatisfactory nature of the scheme prepared by the Working Group. The creation of an undetermined level of preference without a concrete undertaking to proceed with the formation of the free-trade area was likely to produce a high degree of uncertainty. Even if preferential treatment was inherent in any common market, such treatment could not by itself ensure the establishment of a free-trade area or of a customs union and might even create new obstacles. That factor might hinder recognition of the preferential area by third parties. He also pointed out that rules for the average level of tariff reductions were liable to have a limiting effect on competition.

17. A payments union as a possible factor of the common market did not seem desirable to him. A high proportion of Latin American trade was with the outside world and there was no reason to expect any change in that situation. Balance-of-payments difficulties were chiefly associated with trade with countries outside Latin America. In addition, the operation of the payments union might involve the application of exchange controls which would be a step backwards for the countries whose currency was at present convertible.

18. Lastly, after expressing concern regarding the complex system of classification of countries and products laid down in the draft prepared by the Working Group, he said that the greatest possible simplicity would be best suited to the operation of the market.

19. The representative of *Mexico* described the scheme prepared by the Working Group as a formula that was prudent, ingenious and practical and at the same time comprehensive and flexible. The Mexican Government was prepared to accept any responsibilities which might devolve on it under the common market agreement. He was therefore in favour of approving the scheme with any advisable amendments and also believed that the secretariat should prepare, in collaboration with the Governments concerned, the initial draft agreement for the common market so that it could be given immediate effect. Although he was in favour of participation by all countries from the outset, he was prepared to join with those which wished to go ahead immediately while always leaving the door open for others to accede to the agreement. He approved the gradual establishment of a multilateral payments system whose primary aim was the possibility of transferring balances between existing bilateral accounts. He then referred to the draft protocol for the establishment of a system of multilateral compensation for bilateral balances and expressed his satisfaction with it. He announced that Mexico was negotiating a number of

bilateral agreements with South American countries while still maintaining a single type of exchange and complete exchange freedom so as to "meet them half-way" and increase trade with them. He pointed to the need for a dynamic approach in which the common market would be the instrument for the extension of industrialization. He also drew attention to the importance of the simultaneous development of an efficient transport system, particularly shipping.

20. The representative of *Panama* said that his country's geographical—and therefore economic and financial—position might make it impossible for it, at a given moment, to belong to restricted groups; that did not, however, prevent it from supporting the general principles of Latin American economic co-operation. The bases laid down by the Working Group in Mexico represented a step forward, particularly as regards the classification of countries and goods and also as regards the method for the gradual and flexible reduction of trade barriers.

21. The Committee must consider whether it would be better to insist that any agreement should cover all countries or whether more restricted agreements could be authorized. It was essential that all countries or groups of countries should be completely free to deal with their own particular problems and if negotiations on those problems led to the formation of a local group, it had necessarily to be accepted. The only legitimate requirement was that groups of that kind should be free to negotiate with other States.

22. The representative of *Paraguay* said that his country was one of those which could benefit from differential treatment as proposed by the Working Group, although it understood that the granting of excessively favourable treatment to countries that were relatively less developed might encourage the establishment of many non-competitive industries. The position of those countries which were not able to compete with the more industrialized countries should be studied. Another factor to be considered was the possible effect of the common market on trade with the rest of the world, for, if other countries considered it prejudicial to their interests, they might take reprisals and thus affect the development of the countries participating in the common market.

23. The representative of *Peru* stated that the falling prices of primary commodities in comparison with those of industrial goods, and the difficulties which arose in selling the former owing to the measures adopted by traditional purchaser countries, frequently forced his country to take restrictive measures which impeded trade, even within the region. His Government had given its constant support to any procedures for solving the tremendous problem of under-development through the gradual economic integration of the Latin American peoples. He considered that the common market project should include as many countries as possible, and that its bases should therefore be acceptable to all of them, although some might not be in a position to take part in the initial stage for justifiable and circumstantial reasons. The common market should be established on a broad basis, and allow for free competition under proper conditions.

24. He trusted that the other delegations would find some common ground for agreement, since that would be the best tribute that could be paid to the work that they were carrying out.

25. The representative of the *Dominican Republic* said that his Government was prepared to endorse the project for a common market. It was to be hoped that the formula agreed upon would take account of the difficulties of economies in process of developing from the production of primary commodities to a more diversified stage; but during that period it would be necessary to import industrial goods and to obtain them exports would have to be increased to both Latin America and the rest of the world.

26. The representative of *Uruguay* said that his Government fully supported any action designed to co-ordinate Latin American economies with the constitution of a common market as the final aim. That aim must be attained by unambitious stages so that it would be effective. The relevant agreements must be sufficiently flexible to permit their swift adaptation to the different economies and to prevent their execution from producing unfortunate effects on the social order.

27. The representative of *Venezuela* said that his Government favoured the idea put forward by some delegations of an inter-governmental committee, which, in collaboration with the secretariat, might use the outline prepared by the Working Group to formulate a draft agreement for submission to Governments for their consideration. The idea of reciprocity among members of the market, which was outlined in the scheme and took into account the different degrees of development of the Latin American countries, seemed practical and would necessarily contribute to the balanced growth of the different economies. He thought it only right and just that other differential factors should also be taken into account, such as the need for countries with high production costs gradually to adapt themselves to the situation that would be created by a common market.

2. REVIEW OF POSSIBLE BASES AND PRINCIPLES FOR THE COMMON MARKET

28. The Committee took note with satisfaction of the report of the first session of the Working Group on the Latin American Regional Market (Santiago, Chile, February 1958),[3] in which the general principles for the establishment of the Latin American common market are set forth.

29. The Committee next discussed the possible structure of the common market, and in that connexion

[3] See E/CN.12/C.1/WG.2/6, incorporated in Part Two of the report on the Latin American common market and the multilateral payments system (E/CN.12/C.1/9), submitted to the Committee at its second session. [Cf. section A of this volume, pp. 28 *et seq.*]

studied the report of the second session of the Working Group.[4] With due regard to the general principles formulated in that of the first session, the report of the second session presents in specific terms a set of bases and principles on which the common market might be built up. With the aim of assembling the background data required for planning future work, the Committee decided to discuss the basic ideas expressed in the abovementioned report and to include, in the report of the second session, a summary of the opinions and suggestions put forward by the delegations taking part in the discussion.

(a) *Objectives*[5]

30. In discussing the over-all objectives pursued by the establishment of the common market, the Committee felt it was unnecessary that in setting them forth, reference should be made, as headings for the bases, to specific means or instruments which would be used to bring them into effect, since such means and instruments were all those subsequently specified in the bases concerned.

31. Several delegations expressed the view that it was not desirable to mention in the objectives the establishment of a preferential system among the countries members of the common market. Such a preferential system, apart from being an instrument, not an objective, would emerge as the logical effect of the process of reduction and abolition of customs duties and other restrictions. There was consequently no reason why express reference should be made to that system in specifying the objectives.

(b) *Juridical form*[5]

32. The representative of *Brazil* expressed concern as regards the following point: if the juridical form to be adopted for the common market were to be defined from the outset, certain limitations might perhaps be afterwards imposed on the application of such formulae as might seem the most appropriate for bringing the common market into existence. Another point which it would be worth while to clarify was whether the bases outlined in the Mexico report were or were not entirely consistent with the inherent characteristics of a free-trade area.

33. The representative of *Uruguay* suggested that perhaps for the moment it might simply be stated that the juridical form to be adopted in due course would be that best adapted to actual conditions in Latin America.

34. After a reminder that the Contracting Parties of GATT would find their consultations with that body facilitated if the juridical form adopted for the common market was one of those covered by the text of the Agreement, the Committee unanimously decided upon the following criterion with respect to the juridical form of the market: the agreement constituting the common market was to establish the terms and procedures for the gradual reduction of customs duties and other restrictions, with a view to the establishment of a free-trade area designed to lead up to a customs union.

(c) *Tariff and liberalization system*[7]

35. During the discussion of the reduction and abolition of customs duties, as also of other restrictions, the representative of *Brazil* drew attention to the desirability of differentiating between the following two aspects: (*a*) customs duties and other taxes having equivalent effects, the incidence of which was measurable and which were therefore susceptible of gradual reduction: and (*b*) administrative, quantitative and exchange restrictions, which by their very nature could not be measured and therefore could not be gradually reduced. Import permits were cited as an example.

36. The representative of *Mexico* suggested that as useful background data for planning future work relating to methods of reducing customs duties and other restrictions under the common market system, the procedures adopted to that end by the European Economic Community should be borne in mind, especially those relating to quotas.

37. The representative of *Bolivia* pointed out that import quotas could be eliminated gradually.

38. The *Netherlands* representative suggested that, among the members of a common market, the application of new restrictions should be suspended as a preliminary step towards the abolition of existing restrictions.

39. The delegation of *Cuba* said that the duties and programme of action of the Latin American countries during the second stage of the regional system, as conceived in the Mexico report, should be defined in greater detail and, above all, that tentative dates should be fixed for the final organization of the common market.

(d) *Classification of products*[8]

40. The delegation of *Colombia* advocated consideration of whether the classification of products suggested in the Mexico report should or should not be broken down in greater detail. To that end it would perhaps be possible to divide into two parts the category of primary commodities proposed, so that a distinction could be drawn between foodstuffs, on the one hand, and raw materials on the other. Similarly, it would be well to discuss whether the category of capital goods ought to be divided into two sections, so that durable

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[4] See E/CN.12/C.1/W.G.20/10/Rev.1, also incorporated in document E/CN.12/C'1/9 [Cf. section A of this volume, pp. 38 *et seq*.] The references to pages and items in this section of the report relate to the latter document. [The references have been adjusted to tally with the pages in this volume.]

[5] *Op. cit.*, p. 40, I.

[6] *Op. cit.*, p. 40, II.

[7] *Op. cit.*, p. 40, III.

[8] *Op. cit.*, p. 40, IV.

consumer goods and those used in the production of other goods were separately specified.

41. The secretariat stressed that the more categories of goods existed the greater would be the number of partial targets set up within the general programme of reductions, which would detract from its flexibility and make it difficult to apply the policy of gradually lowering customs duties.

(e) *Programme for the first stage*[9]

42. The representative of *Venezuela* expressed his approval of the institution of a special system for agricultural commodities for some time at least as envisaged in the Mexico report. After drawing attention to European precedent he emphasized the need for separate treatment to be accorded, under such a special system, to those items—wheat, for example—which for climatic reasons could be produced only in certain areas, in contrast with others, such as maize, which were grown in all the Latin American countries.

43. With regard to the reduction system for the first stage, outlined in the Mexico report, the representative of *Brazil* drew attention to the following three points:

(i) When the counterpart of a specific reduction of customs duties took the form of the reduction or elimination of restrictions of a non-tariff character like those deriving from the application of direct foreign trade controls, the result might be a lack of equity in the reciprocal advantages obtained which it was worth while to forestall. In fact, while customs duties belonged to a form of trade policy characterized as a rule by its stability, the factors of direct control were often subject to changes determined merely by an administrative decision. Such changes might easily destroy the element of reciprocity in the effect of the negotiations concerned. It would therefore be desirable that non-tariff import restrictions should as far as possible be gradually incorporated into the customs tariff;

(ii) The bringing-down of customs duties to a specific average level might mean that the member countries of the market would have to grant one another margins of preference of which the magnitude would differ greatly in practice, since in each case it would result from the difference between the level of duties applied to the rest of the world and that prevailing within the common market. What mattered in that connexion was not the average level of duties established by the targets concerned, but the effective magnitude of the preference. He called attention in passing to another aspect; it was precisely the countries which experienced balance-of-payments difficulties that would in effect grant the widest margins of preference, since such difficulties usually compelled them to raise the level of tariffs. A prerequisite for the equalization of mutual concessions would be to establish relative consistency in the customs duties applicable to the rest of the world;

(iii) If the common market were to assume the juridical form of a free-trade area, under the regulations governing such an arrangement the members would have to liberalize, within a certain time limit, a substantial part of their reciprocal trade. In this connexion the Brazilian representative recalled that the targets for the first stage outlined in the Mexico report included the total abolition of customs duties only in the case of primary commodities (category I) and not in that of goods in categories II and III. Thus, items in the last two categories could not be included in liberalized trade for purposes of the quantitative assessment of liberalization. Consequently, it might perhaps be difficult for the elimination of duties on a substantial part of trade to attain the level necessary for compliance with the requisite alluded to above.

44. The representative of *Venezuela* remarked that customs duties in countries without balance-of-payments problems were not always relatively lower than those in force in countries where such problems existed. When countries belonging to the former group had to meet heavy production costs for obvious reasons they were obliged to establish high duties.

45. Furthermore, the same representative pointed out that it would be difficult to assimilate the system proposed in the Mexico report for the reduction of duties on goods which might be described as dynamic—in particular certain durable manufactured goods—to the method suggested for primary commodities, since the former category needed relatively greater customs protection in countries at the initial stages of economic development, except that in the case of capital goods countries anxious to become industrialized might sometimes authorize exemptions.

46. The representative of *Mexico* stressed that the targets for the first stage of the programme, in their bearing on the classification of goods in the several categories, constituted a satisfactory system which was of fundamental importance for the establishment of the market, since it was suitably adapted to actual conditions in Latin America.

47. The representative of *Ecuador,* while seconding the view expressed by the delegation of Mexico, also agreed with the representative of Brazil that the system suggested by the Working Group would give rise to different margins of preference in the various countries members of the market. But there would be reciprocity among them in consequence of the fact that the customs duties applied by the member countries among themselves would be the same. A functional reciprocity would also exist, since a country whose exports to the common market territory persistently expanded would have to reduce the disequilibrium by accelerating the process of liberalization in relation to imports from within the market itself. Unfortunately, there were problems which would prevent a single Latin American common market tariff *vis-à-vis* the rest of the world from being established in a relatively short space of time. And to make the conclusion of the common market agreement conditional upon the solution of such problems would mean postponing it for some years.

[9] *Op. cit.*, p. 41, V.

48. The representative of *Cuba,* referring to paragraph V (a),[10] differed from the view that the obligation to reduce and abolish customs duties and other restrictions could be waived in the case of imports of agricultural commodities by countries members of the common market, as might happen if the basis defined in paragraph V (a) were adopted. Many of the countries members of the common market would not be in a position to export industrial products to that market until a certain number of years had elapsed from the time of its establishment. In such cases the economic development of the countries in question would derive no stimulus from their participation in the market, unless they were able to expand their traditional exports of agricultural commodities. Consequently, were the provision contained in paragraph V (a) endorsed, it would have to be limited to exceptional cases, since as a general rule it would be desirable to facilitate the satisfaction of the increment in Latin America's consumption of agricultural commodities with supplies from those countries of the region which specialized in production of that kind.

49. The margin of preference would also mean that the traditional exporters of agricultural commodities would find themselves compelled to buy Latin American industrial products at prices higher than those quoted on the world market. To compensate them for this sacrifice they would have to be accorded in return some concession in favour of their exportable goods quoted at world prices.

(f) *Régime for relatively less developed countries*[11]

50. The representative of *Colombia* made the general observation that, for purposes of accelerating the rate of economic development in the less advanced countries, great importance might be assumed by common market measures aimed at facilitating the freedom of movement of capital and natural persons.

51. The representative of *Venezuela* pointed out that the common market bases, besides providing, as in the Mexico report, for differential treatment in favour of the relatively less developed countries, should include certain *ad hoc* arrangements made by those countries in which wage and cost levels were proportionately higher. Some of those countries—Venezuela, for example—would offer the other members of the common market the incentive deriving from their high capacity to import, which would facilitate the establishment of real reciprocity for the purposes of the common market.

52. The representative of *Brazil* noted with pleasure the inclusion of measures aimed at restoring equilibrium with respect to the economic situation of countries at differing levels of development. However, he thought it worth while to go more deeply into the question of whether such measures were or were not compatible with the GATT regulations on the constitution of free-trade areas. He was especially interested in those bases proposed in the Mexico report, according to which different rates of reduction of customs duties might exist not only among countries at different degrees of development, but also in respect of those whose level of economic development was comparable in general but unequal as regards the production of specific goods or groups of goods.

53. He went on to remark that the increase in the number of categories of goods suggested in the course of the discussion would undoubtedly facilitate the granting of special treatments designed to bridge the gap between differing degrees of economic development. But it would hamper the operation of the free-trade area.

54. He added that the bases suggested in Mexico for country classification seemed to him over-simplified in that, by and large, they implied that the economic development process could be characterized by an initial phase of agricultural production, followed by one of current consumer goods production and terminating in the manufacture of durable consumer and capital goods.

55. Without wishing to detract from the value of such data as a general guide, he pointed out that the fundamentally important yardstick of the different levels of *per capita* income should not be overlooked. The characterization of the different degrees of development was a much more complex problem than it appeared from the Mexico report. By way of example he pointed out that many other factors could be taken into account in differentiating countries in order to ensure that treatment would be reciprocal: the size of local markets, the capacity to absorb foreign capital, labour costs and other production factors, the balance-of-payments situation, etc.

56. The differential system in favour of the underdeveloped countries, as proposed in the Mexico report, did not make it clear whether the system in question would last only until the end of the first ten-year phase of reductions, or whether it could be prolonged until differences in development ceased to exist, as he himself would advocate.

57. The representative of *Venezuela* said that the principles for the classification of countries might be improved upon, as had just been pointed out, by introducing the high costs factor. Conversely, it might not be appropriate to adopt the size of markets and the capacity to absorb capital as classification criteria, since they were not structural elements. He added that, according to the Mexico report, preferential treatment for the relatively less developed countries would not necessarily come to an end at the close of the first phase. Before that point was reached the situation could be reviewed.

58. The *Netherlands* representative, commenting on the possibility that countries at the earlier stages of development might increase customs duties on imports of capital goods from the rest of the world, observed that, in such an event, relatively less developed countries

[10] *Op. cit.,* p. 41.

[11] *Op. cit.,* p. 41, VI.

would purchase capital goods which were more expensive or of less satisfactory quality, thus discouraging their industrialization. It should be borne in mind that the concessions granted to the relatively less developed countries would not be as effective as might appear at first sight. When a country which was no longer in that position abolished or reduced its duties on imports from countries in the initial stages of development, simply because it was relatively more highly developed, the effect of the concessions it accorded would be insignificant, since it would generally produce the same lines of goods as the concessions in question were intended to benefit.

59. The representative of *Panama* said that the traditional division to be found in all parts of the world between rich industrialized countries and poor countries that produced only raw materials should be avoided in Latin America.

(g) *Size of the market and initial groupings* [12]

60. The representative of *Colombia* referred to the principle according to which countries that became parties to the agreement after its entry into force should be allowed a period of ten years, corresponding to the first stage, from the date of their accession. That system might cause difficulties for the operation of the common market agreement, as with such a procedure the objective of the first stage would not be reached at the same time by all members of the market, as seemed desirable.

61. The secretariat explained that the purpose of the provision referred to was to facilitate accession for those countries which were not in a position to become parties from the beginning.

62. The representative of *Brazil* agreed with the principle of making the common market as broad as possible. There were two ways of doing so. One was to start from a general system, that was, a single instrument for the whole of Latin America, and move towards specific solutions. The other was to tackle the sub-regional or sectoral aspect first, arriving ultimately at a general common market. Movements towards sub-regional groupings could be observed in Latin America at the present time. In his view, they were compatible with the ultimate objective of a regional market, provided that they were based on partial agreements that could later be incorporated or absorbed into broader agreements. For that purpose, it would be desirable that some body composed of all the countries, the members of the Trade Committee, for example, should establish standards and principles for such sub-regional and sectoral instruments in order to avoid maladjustments and inconsistencies between them that would impede the formation of the Latin American common market.

63. The representative of *Venezuela* thought that sub-regional customs groups did not encourage the formation of a common market, since it would be difficult to co-ordinate or compound the instruments on which they were based with that by which the common market was set up, owing to the disparity between the rate of reduction of duties and that of the other procedures laid down by them. Furthermore, inequalities between countries of a particular sub-regional group would be rectified more easily in the setting of a general common market than within the narrower limits of the group itself.

64. The secretariat stressed the importance of the problem under discussion. The experts who had prepared the Mexico report, after duly weighing the alternatives outlined by the secretariat, recommended the idea of the common market for the whole of Latin America as they considered that, if a series of closed preferential areas were to come into existence, the present watertight compartments would be replaced by others which, even though broader than those existing at the present time, might make the achievement of the final objective—the common market—more remote. That did not mean that no account should be taken of the bonds resulting from geographic proximity and which promoted closer relations and gave rise to special problems between particular countries, a consideration that was taken into account in the Working Group's report. In addition, the agreement under which the common market would be set up could take account of the existence of restrictive groups whose aim would be to deal with matters of specifically sub-regional or sectoral interest.

65. The representative of *Mexico* believed that there ought to be no objection to the fact that certain groups of countries adopted particular decisions for their common benefit. Nor could there be any opposition to temporary arrangements arising out of special circumstances or to arrangements providing for a system of concessions more favourable than that proposed in the experts' report. Objections should, however, be made to groups whose structures were likely to place greater difficulties in the way of the establishment of the common market than those inherent in the current situation in Latin America. The countries of Latin America should be free to choose whether they wished to take part in a common market whose establishment had been freely discussed and approved by all.

66. The Chairman of the Committee recalled that the Working Group's report outlined the bases which were an important step in the preliminary work for the establishment of the common market but that it did not provide definitive formulae which could be used as a basis for final decisions by Governments. In addition, the preparation of the possible bases for the common market should include certain aspects that had not so far been elucidated. They included the co-ordination of monetary, fiscal and foreign capital investment policies.

67. The secretariat stressed that Mr. Garrido Torres had made the same observations at the time when work on the preparation of the Mexico report was drawing to a close, in which he had taken part in a private capacity as a member of the Working Group. At its meeting in Mexico the Group had stated that it was in agreement

[12] *Op. cit.*, p. 41, VII.

with those observations but by accident had failed to include any words to that effect in its report. In order to rectify that omission the secretariat had proposed—and the Committee had agreed—that note should be made of the observations in the text of the Committee's report.

68. The representative of *Guatemala* said that bilateral and multilateral agreements on Central American economic integration should not be considered as a precedent for laying down principles in the matter under discussion as the case of Central America was a special one. The first steps had already been taken towards such integration before the idea of a common market for the whole of Latin America had come to the fore. In view of their size and degree of economic advancement, the countries of Central America could not take part individually in a Latin American common market, while they could do so in time if they formed a single unit.

69. The representative of *Costa Rica* agreed with the views of the representative of Guatemala and announced that in June 1959 an equalization agreement for certain customs duties levied in Central America on imports from the rest of the world would be signed.

70. He added that it should be laid down in the agreement setting up the Latin American common market that such an agreement would not affect the rights and obligations which the Central American countries had assumed or might assume with a view to the integration of their economies. That exception would cover the entire agreement.

71. The *United States* representative recognized that sub-regional arrangements might raise certain difficulties but that the formation of such groups was perhaps necessary in the light of facts. Whatever the course adopted—whether sub-regional or regional—the final results would be the same, provided that the formulae adopted in either case were conducive to the formation of a competitive market which put no obstacles in the way of Latin America's external trade in general.

(h) *Specific agreements on complementarity and specialization* [13]

72. The representative of *Cuba* did not agree that general clauses authorizing the conclusion of agreements on complementarity and specialization should be included. He admitted that certain special situations had to be recognized, but thought it preferable that they should be regarded as exceptions. The privileges and arrangements provided for in such agreements would tend to create such a powerful network of bilateral interests that plans for regional integration would be severely hampered.

3. PROJECT FOR A FREE-TRADE AREA

73. In response to a request by various representatives, the Chairman invited the delegations of the countries whose experts had attended the consultative meetings on trade policy, held at Santiago, Chile, in April 1959, to inform the Committee of the scope of the work carried out at that meeting with respect to the preparation of a draft agreement on a free-trade zone.[14]

74. Speaking on behalf of these delegations (Argentina, Brazil, Chile and Uruguay), the Argentine representative [15] described the scope, operation and machinery of the free-trade zone as envisaged in the instrument prepared by the consultants.

75. The Argentine consultant and representatives who had participated in the consultative meetings had not done so to formulate a draft agreement on a free-trade zone for the four southern countries but to prepare such an agreement as a step towards the creation of the Latin American common market, without either specifically excluding any Latin American country or ruling out the consideration of an alternative means of attaining the same objective.

76. In his opinion, the consultants had prepared a working paper whose fundamental contribution was to place at the disposal of the Latin American countries a group of instruments which would enable them to increase the liberalization of their intra-regional trade and to put it on a definitely multilateral basis. The document in question did not yet warrant any decision by Governments, or at least by that of Argentina. In view of its structure, the document was a clear indication of the lines along which the work relating to the establishment of the Latin American common market should be directed and was in no way in opposition to its establishment.

77. Lastly, he made it clear that he was ready to consider any alternative solution which might be put forward in relation to the establishment of the Latin American common market that might expedite its formation and provide a more effective approach to the complex problems involved in such an undertaking.

78. The representatives of *Brazil, Chile* and *Uruguay* supported the statement made by the Argentine representative and supplied some additional information.

79. The representative of *Cuba* pointed out that, when there were possibilities of extensive collaboration in Latin America, the sub-regional arrangements would prove an impediment to their realization. Every group acquired exclusive interests and provoked economic reactions which were hampering the desired reconciliation and collaboration of different forces throughout the region. Moreover, the negotiatory position of a country which, following the implementation of a sub-regional agreement, wished or was obliged to accede to such an agreement, might be jeopardized by the necessity to negotiate by itself with a bloc that was

[13] *Op. cit.*, p. 41, VIII.

[14] The record containing the results of this series of meetings is to be found in "Consultations on trade policy. II. Meetings held at Santiago, Chile" (April 1959) (E/CN.12/C.1/11/Add.1). [See section C of this volume, pp. 89 *et seq.*]

[15] For the full text of this statement see Information Document No. 9.

already in existence. Such a situation might also arouse political misgivings.

80. He added that those remarks were equally applicable to the sectoral agreements visualized in the Mexico report. The conclusion of such agreements should not constitute a right for the countries participating in the market, but a qualified exception.

81. He pointed out that there was a discrepancy between the Mexico document and the report of the consultative meeting at Santiago. The first had emerged from a sustained effort on the part of the Latin American countries as a whole to devise ways and means of giving equitable treatment to the interest of each of them, while the second took into account only the interests of the countries which had sponsored it. Moreover, it did not seem just to place the other Latin American countries in the position of having to consider their accession to an agreement in the negotiation of which they had taken no part.

82. The representative of *Mexico* pointed out, among other matters, that the project prepared by the consultants at the Santiago session could not be criticized as regards the sovereignty of the respective Governments concluding it, especially since three of them were Contracting Parties of GATT, whose regulations provided for the formation of free-trade zones among its members.

83. The representative of *Cuba* further considered that there were two possibilities open to the Committee, namely, to take note of the information presented or to submit the draft instrument for discussion, in order to ascertain whether or not the free-trade zone might constitute an intermediate stage on the path leading to a Latin American common market. If the Santiago agreement were regarded as a project and not yet as an international instrument, there would still be time to incorporate in it the fundamental points of the Mexico report and to insert in the text a statement to the effect that it was an interim measure prior to the formation of he general common market which would be covered in the said instrument. He added that the indications given in the Mexico report, particularly with respect to the treatment to be accorded to less developed countries, should be followed at other stages, such as that of the accession of additional countries to the Santiago agreement.

84. In order to dissipate certain misgivings that had been voiced, the secretariat explained that it had deemed it advisable that contact with the Latin American Governments should be maintained not through large-scale meetings, but through groups which would be better suited to the discussion of certain specific problems. As had been evident at the first series of consultative meetings on trade policy (Santiago, August 1958),[16] the participants were clearly concerned about the possible repercussions of the recent tariff and exchange reforms on trade among the southern-zone countries of South America. In studying the relevant problems and their solutions, the group had discussed whether bilateral agreements which were about to expire could be transformed into a multilateral system concurrently with a reduction in customs duties and other restrictions.

85. From the contact maintained between the secretariat and the Governments concerned after the Santiago meeting, it appeared that the desired objective was to prepare the bases of a draft agreement, which would also be submitted to GATT in order to secure its recognition of the exception to the most-favoured-nation clause prior to reducing customs duties in the countries beset by urgent foreign-trade problems. It should be pointed out that the secretariat, while extending its technical co-operation to the countries concerned, had been at the same time preparing the necessary background studies for the session of the Working Group at Mexico City in February 1959 which had met to formulate the possible bases for the general common market.

86. The work had been divided in accordance with a clear-cut criterion. The studies relating to the Mexico session, which had far-reaching implications, had facilitated the search for solutions that would be acceptable to all Latin American countries. Conversely, the preparatory work on the draft agreement for the southern-zone countries had been of a restricted and circumstantial nature. Hence, the consultants who met for the second time at Santiago in April 1959 had not for a moment considered that the future negotiation of the common market might be founded on that latter agreement, instead of on the bases recently considered by the Working Group in Mexico.

87. The preamble to the Santiago agreement was quite explicit; it stressed the provisional nature of the document, which would disappear once the establishment of the common market had been negotiated on the basis of the principles formulated at Mexico, and recorded the intention of the consultants to recommend their Governments to undertake new negotiations once the bases of the common market had been approved in accordance with the Mexico report. The opinion was also expressed during the Santiago meeting that, pending such new negotiations, the southern-zone countries should refrain from taking any measures which might jeopardize their current trade with the rest of Latin America.

88. The secretariat further pointed out that, in confirmation of those aims, the group of consultants at Santiago had decided unanimously to bring the document to the attention of the Trade Committee—thereby demonstrating the great value of the Committee as the mainspring of international co-operation—before the Governments directly concerned had made any comments on it. In that way, the other Governments were duly informed of its content. For all those reasons, the interim arrangements envisaged for the southern-zone countries did not imply the formation of an exclusive sub-regional group which would impede the subsequent establishment of the common market.

[16] See *Consultations on trade policy* (E/CN.12/C.1/11), pp. 5 *et seq.*

89. The representative of *Argentina* pointed out that the four southern-zone countries had, like Bolivia, Paraguay and Peru, maintained bilateral trade agreements for many years, by which they were accorded preferential exchange and tariff treatment. Hence, the establishment of a free-trade area would not be an unexpected innovation, since it would mean no more than making existing bilateral agreements and the consolidation of benefits already granted on a broader and more rational basis. Moreover, the agreement had been prepared with an eye to the future adaptation of the free-trade zone to the common market.

90. It was not the intention of the Argentine Government to set up regional blocs which would impede an over-all agreement. The project of a free-trade zone was perfectly compatible with a common market, and there did not appear to be any discrepancies between the Mexico report and that of the series of consultative meetings at Santiago to justify the reactions that had been revealed in the course of the discussions.

91. In the Argentine representative's opinion, it would appear from the recommendations of the Santiago session that the consultants had made provision for the participation in the possible agreement of countries which had not been represented at the session at the following stages: (*a*) initial participation in the signing of the agreement; (*b*) renegotiation of the agreement already in force as a result of the participation of one or more countries which had not deemed it opportune or advisable to accede to it when it was first signed; and (*c*) transformation of the agreement on the free-trade zone into a general agreement, in conformity with the bases accepted by the Latin American Governments for the establishment of the common market.

92. The representatives of *Brazil, Chile* and *Uruguay* endorsed the secretariat's views, which they considered to be a faithful interpretation of the tenor of events and objectives pursued at the Santiago session.

93. The Chairman of the Committee said that the idea of the common market was an attempt to introduce into economic affairs the same *esprit de corps* which pervaded the political and juridical life of Latin America, in other words, to give pan-Americanism and economic connotation. From the political standpoint, such solidarity implied the application of three principles: (*a*) equality of opportunity for all countries to utilize their resources efficiently and economically; (*b*) freedom of choice, since it was incompatible with national sovereignty for a country to be obliged to enter a specific group unless it wished to do so at a given moment; and (*c*) non-exclusiveness. Any measures that were liable to lead to the formation of antagonistic groups should be shunned.

94. As regards economic affairs, *esprit de corps* involved the fulfilment of three other principles: (*a*) productivity, i.e., the maximum utilization of resources; (*b*) the principle of free competition, which was opposed to the creation of monopolies on the part of any enterprise, country or group of countries; and (*c*) specialization. In the last respect, Latin America should aspire to the international division of labour and promote the specialization of production in order to achieve optimum employment of available resources, a rise in the real income of its population and an expansion of its trade with the rest of the world.

95. The fulfilment of those objectives implied an acceleration of the rate of economic growth for Latin America as a whole, which could only be achieved through the common market. The fact that the target was not immediately attainable should not prevent attempts from being made to reach objectives of lesser scope. When a group of countries was faced with urgent problems of mutual interest, solutions had to be found of such a kind that they would constitute an intermediate stage on the road to a final common target. The agreements reached by such groups should be open for the accession of other countries and also subject to revision. The Trade Committee might fulfil a useful purpose in reviewing, criticizing and directing the activities of groups of countries so as to ensure that they did not conflict with those designed to reach the general goal of the common market. Each group would have to set up its own co-ordinating body under the supervision of the Trade Committee.

96. The debate on this subject was closed after the Committee agreed to take note of the information provided on the project for a free-trade zone.

4. Most-favoured-nation treatment [17]

97. The representative of *Brazil* indicated that the exceptions to the most-favoured-nation clause considered in the Mexico report might, to a certain extent, give rise to semi-preferential areas, and therefore to incompatibilities for countries that were both members of the common market and of GATT. He suggested that, when the studies were continued, the exceptions provided for in paragraphs (*a*), (*b*), (*c*) and (*d*) of that document [18] should be studied.

98. The representative of *Venezuela* stated that Basis X as well as Bases VIII and IX were necessary for Latin America to build up its common market. They were exceptions to orthodox principles, and might be helpful in establishing the common market by means of the gradual application of a preferential system, which he believed to be the only practical way of attaining the desired objective. In the absence of such exceptions, the common market might slow down the growth of the less developed countries, since the latter would lack the protection which they would need for some time for their industrialization. The application of strictly orthodox bases would be tantamount to making it impossible to set up a common market.

[17] See again E/CN.12/C.1/9, *op cit.*, X. [Cf. p. 42 of this volume.]

[18] *Ibid.*, p. 42.

5. BASIC PRINCIPLES FOR THE COMMON MARKET [19]

99. The Committee took note of the basic principles formulated in the Mexico report for the operation of the common market.

100. The representative of *Brazil* made some observations on basic principle VIII [20] relating to measures for remedying balance-of-payments disequilibria in countries participating in the common market. If the productivity of a country enabled it to expand its exports to the common market territory, and thereby placed it in a creditor position, there was no reason why that country should assume the main responsibility for rectifying the resulting imbalance.

101. The representative of *Chile* referred to basic principle X [21] on Latin American co-ordination in respect of the customs tariff and statistics, and indicated that such co-ordination was important for the operation of the market, since current customs nomenclature and methods were at present very varied as were these relating to foreign trade statistics. In making those observations, he pointed out that the requisite co-ordination and standardization would require extensive preparatory work, and submitted a draft resolution requesting the secretariat to undertake the relevant studies.[22]

102. The representative of the *Netherlands* stressed that it was important to have a precise definition of the future functions of the committee responsible for dierecting and administering the agreement.

103. The representative of *Brazil* pointed out that the basic principles set forth in the Mexico report contained substantive points for the operation of the common market. They would serve, so to speak, as a guide for regulating the behaviour of the Latin American conutries participating in the market. The lack of adequate experience in inter-Latin American trade, the diverse systems used by each country to carry out its trade and monetary policies would make it a highly complicated matter to arrive at a general common market agreement which would take into account all the interests involved, without containing an infinite number of safeguards and exceptions which might in the end become more numerous than the operative provisions.

104. In view of that and other considerations, he suggested that the secretariat should take note of what he thought to be a practical and realistic position, namely, that the basic principles to be henceforth observed by the Latin American countries in all their trade agreements would co-ordinate and guide the partial efforts conducing to the establishment of the common market. He felt that such a procedure would be somewhat different from that of immediately formulating a general draft agreement on the structural bases for the market. The conclusion of partial agreements within the framework of the above-mentioned code of principles would perhaps be preferable and more practical.

105. The secretariat inquired whether the representative of Brazil considered that the reciprocal benefits to be granted by countries participating in sub-regional agreements in accordance with the code of principles might or might not be extensible to other Latin American countries.

106. The representative of *Brazil* considered that it was possible and, up to a certain point, desirable, to include among those principles some criterion with respect to the most-favoured-nation clause in Latin America, once reciprocity of treatment had been ensured, and to provide for conformity with international commitments, as established in the regulations of GATT. A Latin American most-favoured-nation clause might become a link between sub-regional agreements concluded in Latin America.

107. The representative of *Mexico* stated that he had definite instructions from his Government to endorse and support the idea of the common market as envisaged in the bases and principles suggested in the report of the Working Group. He hoped that the Commission would carry out its work in such a way as to reach a decision on the establishment of the common market within a short time. His delegation and that of Cuba had prepared a draft resolution intended to speed up the preparation of a draft treaty for a common market covering the whole Latin American region. Even if the preparation of such a draft was thought to be a little premature, it would be very useful, since Governments would then know exactly what commitments they would be assuming when the time came.

108. The representative of *Argentina* said that his Government had received the recommendations of the Working Group with pleasure, since they would help the region to reach the objective of a common market. It had considered particularly apposite those referring to the juridical form of the projected agreement, to the classification of products and to differential treatment for the different countries. The last two provisions should be modified as trade was gradually liberalized. Although it was hoped in general that all the Latin American countries would participate in the common market from its inception, the structure and bases of the market project would have to adapt themselves to circumstances.

109. The secretariat and Trade Committee, in their preparations for the common market, should give due importance to the principal objective—the expansion of inter-Latin American trade.

6. GATT AND ECONOMIC INTEGRATION PROJECTS

110. Referring to the various observations made during the course of the debate on the General Agreement on Tariffs and Trade, the GATT observer stated

[19] *Ibid.*, pp. 42 *et seq.*

[20] *Op. cit.*, p. 43.

[21] *Ibid.*, p. 43.

[22] See Part II of this report, resolution 7 (II) which was later adopted by the Committee.

that his organization recognized the right of countries to integrate their economies on the regional level. In trying to give its regulations the greatest possible flexibility, it had therefore given a favourable reception to the projects for Central American integration, and would consider further projects, both limited and general, adopted by other countries of Latin America, in the same spirit.

111. He also stated that he was glad to see from the debates of the Trade Committee that the views of the Latin American countries were very close to those held by GATT. In establishing preferential systems, it was necessary to ensure that the interests of third countries were not harmed and that such systems were only applied at an initial stage, since the final aim should always be a competitive market without restrictions. Within the free-trade zone there should be equality of treatment in practice. Care ought therefore to be taken to see that the most-favoured-nation clause continued to be the rule and not the exception, as might be supposed after reading the long list of exceptions suggested in the Mexico report.

112. He concluded by saying that the project which the southern-zone countries of South America were to submit to GATT would be received with understanding and sympathy. The same welcome would be extended to any concrete plan for economic integration submitted jointly to GATT by the countries of Latin America at a future date.

7. PAYMENTS

113. The secretariat reported to the Committee on the steps that were being taken, in pursuance of resolution 1 (I), gradually to establish a system for the multilateral compensation of bilateral balances, as a first stage towards a multilateral payments system in Latin America. The first step had been the preparation of a standard agreement by the Central Banks Working Group at its first session, held at Montevideo, Uruguay, April 1957.[23] As a result, almost all the existing bilateral payment systems in South America at the present time were based on agreements which reproduced the provisions of the standard agreement. That had made it possible to begin transfers of bilateral balances although in a sporadic way. To make such transfers systematic, the Central Banks Working Group, at its second session, held at Rio de Janeiro, Brazil, December 1958,[24] had prepared a draft protocol designed to institute a system for the multilateral compensation of bilateral balances, under which transfers would be made periodically, in some cases automatically, and on the understanding that the system was merely a transition stage to wider and expanding forms of multilateralism.

114. The *United States* representative asked the secretariat to take into account the remarks made by his delegation in its general statement[25] about the payments system as if they had been made at the present stage of the debate.

115. The observer for the International Monetary Fund stressed the real interest which his organization took in the trend towards the establishment of a common market in Latin America. He pointed out that one of the best ways of converting the idea into a fact was to introduce stabilization programmes so as to put finances in order, adopt realistic types of exchange and liberalize trade effectively. On the other hand, he doubted whether inter-Latin American trade could be stimulated by a payments union. Nor did he think that a payments union was, strictly speaking, an instrument necessary or desirable in the formation of the common market. It might prolong or perpetuate bilateralism unnecessarily. The idea of establishing it might arise at least in part from experience in Europe which was not necessarily applicable to Latin America, particularly as a result of the recent trend towards total convertibility in countries such as Argentina, Bolivia, Chile, Colombia, Paraguay and Peru. Convertibility would make the payments union unnecessary or render it very limited in scope. He pointed out also that convertibility recently put into effect by the countries of Western Europe removed the very bases on which discrimination in trade and world payments had been built.

116. On being requested by the secretariat to expound his views in greater detail, the observer of the International Monetary Fund continued that a payments union would increase bilateralism in Latin America as it would require the keeping of bilateral accounts. It would also entail the need to maintain or establish exchange controls. Originally, the Fund had not agreed in principle with the creation of the European Payments Union but had recognized that the economic situation in the countries of Europe was sufficient explanation of its creation. With regard to the countries of Latin America whose currencies were for the most part convertible, there were at the present time no reasons for setting up a mechanism which had never been anything more than a temporary institution in Europe.

117. The secretariat said that a multilateral payments union could operate without bilateral agreements between its members. The very purpose of such a union was to overcome bilateralism because it would set up a system which, contrary to the purpose of the latter, would not seek to balance payments between each pair of countries. It sought to co-ordinate payments between each member country and all other members considered as a whole. The Fund had originally disagreed with the creation of the European Payments Union, not because it had considered that it would perpetuate bilateralism but simply because it was to be regional and not worldwide. The European Payments Union had made it

[23] See "Report submitted by the Central Banks Working Group on a Multilateral Payments System to the ECLA Trade Committee" (E/CN.12/C.1/WG.1/5), incorporated with a note by the secretariat in document E/CN.12/484.

[24] See "Report of the second session of the Central Banks Working Group" (E/CN.12/C.1/WG.1/10/Rev.1), appended to a note by the secretariat in document E/CN.12/C.1/10.

[25] See summary in section 1, paragraphs 16-18. The full text of the statement is given in Information Document No. 12.

possible to advance gradually towards convertibility among the countries of Europe as a first step towards convertibility with the rest of the world, as had occurred recently.

118. Various Latin American currencies were convertible at the cost of subjecting the importation of goods to restrictions of unprecedented severity. There were in South America countries whose currency was apparently convertible which would, however, be unable to remove those restrictions; indeed, their removal would seriously jeopardize their international payments position, but a payments union would give them an opportunity to lift such restrictions on imports from other Latin American countries. The credits granted by the payments union would be of assistance to them in lifting restrictions through the mechanism it provided, until such time as the removal of restrictions in the other countries made it possible for them in turn to increase their exports. The payments union would contribute to the liberalization of trade and would bring about a certain measure of real convertibility within Latin America. The payments union would not entail increasing exchange control nor extending bilateralism, but it would on the contrary definitely contribute to the removal of both. As regards the registered ledger accounts kept in a payments union, it must be pointed out that in themselves they had no bilateral significance. They were not bilateral payments agreements. Moreover, under the terms of the European Monetary Agreement which came into force in January 1959, registered ledger accounts were kept and settled monthly on a basis of multilateralism and convertibility.

119. The observer of the International Monetary Fund said that his organization was in no way opposed to the Central Banks of Latin American countries' granting each other reciprocal credits with a view to promoting trade; there was, however, no need for bilateral agreements whose existence might lead to the accumulation of balances that could not be turned to account. Nor did the observations that had been made with regard to the payments union mean that the Fund would not view with sympathy temporary agreements that might be concluded between bilateral-account countries in order to solve specific problems. Such observations did not affect the Rio Protocol but expressed the Fund's doubts regarding whether a payments union was a necessary part of the common market without in any way signifying that the organization was taking up a definite position in advance.

Part Two

RESOLUTIONS ADOPTED

120. The Trade Committee adopted the following resolutions at its second session:

- 6 (II) [26] Work for the establishment of the Latin American common market
- 7 (II) Standard tariff nomenclature
- 8 (II) Multilateral payments
- 9 (II) Study of the inter-Latin American payments problem within the common market
- 10 (II) Measures to publicize the objectives of the common market

121. At the time the resolutions were adopted, various delegations made statements which they asked to have included in the Committee's report (see annex III).

122. The text of these resolutions is a follows:

Resolution 6 (II)

WORK FOR THE ESTABLISHMENT OF THE LATIN AMERICAN COMMON MARKET

The Trade Committee,

Considering that, at its first session, it approved, in resolution 3 (I), the setting up of a group of experts to define the characteristics of the Latin American common market and examine the possibilities of the establishment thereof,

Considering that the American republics stated, in resolution XL of the Inter-American Economic Conference of the Organization of American States, that it would be advisable to establish, gradually and progressively, in a multilateral and competitive form, a Latin American common market,

Considering that the existence of the broadest possible market within the Latin American area will lead to a more rational organization of the productive system by means of which industry will attain more economic dimensions and will thereby be able to reduce its costs and utilize natural resources more effectively,

Considering that the putting into operation of the common market as speedily as possible will help to expand and diversify trade and to accelerate the economic development of each and all of the Latin American countries, with the consequent rise in the standard of living of its people,

Considering that the studies undertaken by the secretariat of the Economic Commission for Latin America, the documents prepared in Santiago (Chile) and in Mexico by the group of experts set up under reso-

[26] The arabic numbers continue the series of resolutions adopted at the Committee's first session. The figure "II" in parentheses indicates the second session.

lution 3 (I) of the Trade Committee, and the discussions held during the present session of the Trade Committee constitute an important contribution to future progress towards Latin American economic integration,

Considering the advisability of accelerating as much as possible studies relating to the establishment of the Latin American common market,

Decides:

1. To intensify efforts conducing to the increase of economic co-operation among the countries of the region, with a view to constituting a Latin American common market, which shall:

(*a*) include all the Latin American countries which decide to participate in its formation;

(*b*) remain open to the accession of other Latin American countries;

(*c*) operate on competitive bases and comprise the largest possible number of products;

(*d*) take into consideration the inequalities that exist among the Latin American countries in so far as their economic development is concerned;

(*e*) be characterized by the progressive standardization of the customs tariffs and other instruments of trade policy of the Latin American countries, in their relations with other areas, due allowance being made for international commitments;

(*f*) depend, for its realization, on the widest possible collaboration on the part of private enterprise;

(*g*) promote increasing specialization in economic activities, in order to improve utilization of the production factors available in the region; and

(*h*) contribute to the expansion and diversification of trade among the Latin American countries, and between them and the rest of the world.

2. To recommend the Latin American Governments to set up working groups to co-ordinate all national activities that are related to the possible future participation of their respective countries in the Latin American common market. It shall also be the function of the said working groups to promote the studies alluded to in paragraph 3 (*c*) of the present resolution in close co-operation with the secretariat;

3. To request the secretariat of the Economic Commission for Latin America:

(*a*) in order to proceed with studies on the formation of the common market, to set up a group of high-ranking experts to be appointed by those Latin American Governments and other Governments members of the Commission which may desire to do so;

(*b*) to co-ordinate and arrange in systematic order the suggestions and observations made in the course of the discussions at the second session of the Trade Committee, with respect to recommendations relating to the structure and bases of the Latin American common market formulated at the Santiago and Mexico meetings by the group of experts set up under the terms of resolution 3 (I) of the above-mentioned Committee;

(*c*) to give priority to and complete studies on the tariff exchange and foreign trade systems, important factors influencing productivity, different means of transport, foreign investment and other related subjects, as regards the aspects which it considers to have a fundamental bearing on the formation of a common market;

(*d*) to transmit to the experts, as well as to the member Governments, in the shortest possible time, the documentation referred to in point (*b*) and the studies mentioned in point (*c*), whether wholly or partly completed;

(*e*) as soon as it considers practicable, and not later than February 1960, to invite the group of experts to hold their first session in order that they may prepare a preliminary draft agreement on the Latin American common market;

(*f*) to send the preliminary draft, after completion, to the Governments for their study and for any comments that they may deem advisable, which should be made within the time limit allotted by the secretariat;

(*g*) to reconvene, if any one of the observations on fundamental aspects indicates the desirability of making a new technical review of the subject, the group of experts in order to prepare the final preliminary draft, which shall immediately be transmitted by the secretariat to the Governments of all member countries;

(*h*) to convene, as soon as it considers this feasible, and by means of a prior communication to the member Governments, another session of the ECLA Trade Committee with a view to the discussion and preparation of the final draft agreement to be submitted to the Latin American Governments for their signature;

4. To recommend to the secretariat of the Commission that, as regards paragraph 3 (*c*) of the present resolution, it should co-ordinate its work on the respective studies with that of the secretariat of the Inter-American Economic and Social Council, under resolution XL of the Inter-American Economic Conference of the Organization of American States.

19 May 1959

Resolution 7 (II)

STANDARD TARIFF NOMENCLATURE

The Trade Committee,

Considering that, in order to attain the objectives for the establishment of the Latin American common market, it is necessary to standardize the tariff nomenclature of the Latin American countries,

Considering that the Central American countries have already adopted a standard tariff nomenclature based on the Standard International Trade Classification,

Decides:

1. To recommend to the secretariat of the Com-

mission that it should prepare, for consideration by the Trade Committee, suitable bases and procedures for the adoption of a standard tariff nomenclature in the Latin American countries;

2. To suggest to the secretariat that it should organize seminars on customs questions, for the purpose of clarifying customs problems common to the Latin American countries, especially those relating to the desired standardization of tariff nomenclatures;

3. To request the secretariat that it should bring to the attention of member Governments the background data and studies on the Standard Central American tariff nomenclature and all other matters which it deems of interest for the purpose in view.

19 May 1959

Resolution 8 (II)

MULTILATERAL PAYMENTS

The Trade Committee,

Having considered secretariat document E/CN.12/C.1/10, in which the results achieved at the second session of the Central Banks Working Group, set up pursuant to resolution 1 (I) on multilateral payments adopted at the first session of the Trade Committee, are recorded,

Taking note of resolution 5, adopted at the same session, by virtue of which the Central Banks Working Group requests the ECLA secretariat diligently to pursue its studies on the possibility of gradually establishing a multilateral payments system in Latin America,

Decides:

1. To note with satisfaction the results of the second session of the Central Banks Working Group; and

2. To suggest to the ECLA secretariat that all Latin American central banks or equivalent institutions, as well as the central banks of other States members of the Commission attending in the capacity of observers, should be invited to participate in the future activities of the Working Group.

19 May 1959

Resolution 9 (II)

STUDY OF THE INTER-LATIN AMERICAN PAYMENTS PROBLEM WITHIN THE COMMON MARKET

The Trade Committee,

Considering that, at its second session, it discussed the question of inter-Latin American payments with reference to the establishment of the Latin American common market and to the suggestions put forward by the Working Group on the Latin American Regional Market (E/CN.12/C.1/9),

Whereas the said Group is in favour of the organization of a payments and credits system to facilitate the multilateral settlement of balances among the member countries as one of the aspects of the common market,

Considering that the views expressed at the aforementioned session show that opinions vary as to the best method of approach to the problem in question, and that, moreover, the States members of the United Nations Economic Commission for Latin America are likewise members of the International Monetary Fund, the United Nations specialized agency dealing with international payments and monetary affairs, and that it is desirable that this agency should study the payments system in a Latin American market, and

Being convinced of the benefits that would result from a study of the problem by the staff of experts of ECLA and IMF,

Decides:

1. To request the secretariat of the Economic Commission for Latin America and the International Monetary Fund to collaborate in the preparation of a report on the best way of tackling the problem of inter-Latin American payments in a regional common market, which will in due course be submitted to the member countries for their consideration;

2. That the reports which were previously requested will not interfere with the further execution of the work assigned to the Central Banks Working Group under Trade Committee resolution 1 (I).

19 May 1959

Resolution 10 (II)

MEASURES TO PUBLICIZE THE OBJECTIVES OF THE COMMON MARKET

The Trade Committee,

Cconsidering that, during the discussions held at its second session, it was made clearly evident that the Governments were interested in the establishment of a Latin American common market as one of the necessary steps towards the achievement of a more rapid rate of economic development and the better utilization of resources,

Considering that these ideas should be made known to all economic sectors and to the general public,

Decides:

To request the secretariat of the Commission, through its own information services and those of the United Nations, to disseminate as widely as possible information on the reasons underlying the proposal to establish the common market and thus to achieve Latin American economic integration;

To recommend that member Governments which collaborate in this work at the national level should inform public opinion, and particularly representative bodies in the economic, agricultural and trade sectors, of the beneficial effects on the expansion of trade, the development of industry and the improvement of the standard of living of the Latin American peoples which would result from the establishment of the common market.

19 May 1959

Annex I

LIST OF REPRESENTATIVES

1. *Representatives of States members of the Committee*

Argentina: Arnoldo Tomás Musich, Representative; Elvio Baldinelli, Fernando Lerena, Rodolfo Korenjak, Jorge A. Livingston

Bolivia: Juan Haus Solíz, Representative; César Lafaye Borda

Brazil: Jorge Latour, Representative; José Garrido Torres, Alternate; Gerson Augusto da Silva, Eduardo García Rossi, Guilherme Pegurier, Helio Schlittler Silva, Joao Paulo de Almeida Magalhaes, Paulo Gabral de Melo, Murillo Valente Gurgel, Genival de Almeida Santos, Henrique de Oliveira D., Marcel Tarisse da Fontoura, Benedito Fonseca Moreira, Jacy Montenegro Magalhaes, Fredeiro O. Buys, Violeta Gómez, Doralice García

Colombia: Aurelio Correa, Representative; Jorge Franco, Augusto Hannaberges, Alberto Díaz, Jorge Méndez

Costa Rica: Porfirio Morera Batres

Cuba: Regino Boti, Representative; Rafael Eric Aguero Montoro, Alternate; Andrés Vargas Gómez, Ricardo Riaño Jauma, Gerardo Brown, Salvador Vilaseca, René Monserrat, Ignacio Bastillo

Chile: Luis Marty, Representative; Gustavo Valdivieso, Alternate; Ives Morizon, Enrique Carvallo

Dominican Republic: Oscar Ginebra Henríquez

Ecuador: Clemente Yerovi, Gustavo Icaza, Walter Pitarque, Angel Murriagui, Germánico Salgado

El Salvador: Alberto Morales Rodríguez, Representative; Salvador Sánchez Aguillón, Jr.

France: Guillaume Georges-Picot, Representative; René Letondot, Jean Pierre Cabouat, Pierre Gudin Du Pavillon, Sra. Bezsonoff

Guatemala: Eduardo Rodríguez Genis, Representative; Alberto Fuentes Mohr, J. Antonio Palacios, Roberto Mazariegos, Carlos Humberto de León, Rafael David

Honduras: Salomón Ordóñez, Representative; Francisco Safont Tria, Valentín Mendoza

Mexico: Plácido García Reynoso, Representative; Octaviano Campos Salas, Víctor L. Urquidi, Forna de Rosenblusth, Emilio Alanis Patiño, Julio Ocadiz, Roberto Gatica Aponte, Herminio Pérez Flores

Netherlands: P. A. M. van Philips, Representative; F. de Castro, Alternate; J. Kaufmann, Alternate; R. A. Ferrier, E. O. van Suchtelen, H. E. Rijsdijk, H. S. Radhakishun, L. A. M. Lichtveld

Nicaragua: José María Castillo, Representative; Gustavo Guerrero, Oscar Danilo Darreto Terán

Panama: Fernando Eleta A., Representative; Alberto A. Boyd, Alternate; Roberto López Fábrega, Alternate; Inocencio Galindo V., Alternate; Diógenes de la Rosa, Henrique Obarrio, Mario de Diego, Louis Martinez, Jaime de la Guardia Jr., Eduardo McCullough, Alfonso Tejeira, Ismael Olivares, María I. Mendoza, Luisa E. Quesada, Jevenal A. Castrellón A., Jorge R. Paredes, Emilio Clare, Julio Quijano, Rubén Darío Carles Jr., Gaspar Estribi, David Turner Morales, Rubén D. Herrera, Hernan R. Rodríguez, Menalco Solís, Jorge Guillermo Aispú, José Riba, Guillermo Jurado Selles, Juan M. Ruiz, Gilberto Ferrari, Carlos A. Velarde, Gustavo González, Bernardo Ocaña, Manuel Varela Jr., José María Sánchez V., Fernando Amado, Virginia Escala, José I. Navas, Ricardo Arosemena B., Víctor Cruz Urrutia, Jorge I. Quiroz, Pedro Comas Calvet, Bernardo Lombardo, Marcos Obaldia, Renato Ozores, Guillermo de Roux, Eucaris Espino, Antonio Moscoso B., M. Everardo Duque, Eduardo Lanuza, Erasmo Escobar, Alejandro Ferrerd S., Pedro E. Albarado A., Amelia Goursac C., Galileo Solís, Alejandro de la Guardia Jr., Joel Medina

Paraguay: Pedro Chamorro, Representative; Marcial Valiente

Peru: Juan Pardo Heeren, Representative; Vicente Cerro Cebrián, Rodolfo León, Alejandro Busalleu

United Kingdom of Great Britain and Northern Ireland: Sir Ian Henderson, Representative; H. N. Brain, Alternate; R. C. Barnes, Alternate; E. R. Hargreaves, G. G. Simpson, R. A. Farquharson, E. A. Arnoux, V. G. Huntrods

United States of America: Harold M. Randall, Representative; Walter Kotschnig, Alternate; Ralph Korp, Albert Power, Herbert F. Propps, Marie Richardson, Alexander M. Rosensen, Robert L. Sammons, Joseph B. Tisinger, William Turnage

Uruguay: Julio E. Pons, Representative; Félix Polleri Carrio

Venezuela: Carlos D'Ascoli, Representative; Braulio Jatar Doti, Valmoré Acevedo, Francois Moanack, Horacio Guillermo Villalobos, Miguel Angel Benzo, Antonio José Aveledo, Ernesto Peltzer

2. *Representatives of States Members of the United Nations, not members of the Committee, attending in a consultative capacity*

Austria: Louis Martinz

Belgium: Conde de Borchgrave d'Altena

Canada: Howard W. Richardson

Czechoslovakia: Josef Hokes, Jaroslav Valenta

Hungary: Imre Hollai, Iván S's

Italy: Mario Majoli, Giulio Barbosi

Japan: Ken Ninomiya, Harushige Kaneda

Poland: Boleslaw Jelen, Stanislaw Strus

Spain: Alfredo Sánchez Bella, Representative; Francisco Javier Mateos Alvarez, Eduardo de Laiglesia González

Union of Soviet Socialist Republics: Vladimir I. Bazikin, L. T. Mikhailov, Victor Ivanovich Koryakin

United Arab Republic: Hamdy El Tahri, Mohamed Rikfy Osman, Mohamed El Tabey

3. *Representatives of a State not a member of the United Nations, attending in a consultative capacity*

Federal Republic of Germany: Conde von Pappenheim, Josef Engels

4. *Representatives of specialized agencies*

Food and Agriculture Organization of the United Nations (FAO): Francisco Aquino, Jean Moser, Jorge d'Alarcao, Eero Kalkkinen

United Nations Educational, Scientific and Cultural Organization (UNESCO): Carlos Victor Penna

International Bank for Reconstruction and Development (BANK) and International Finance Corporation (IFC): G. Neil Perry, Borden Grayson

International Monetary Fund (IMF): Jorge del Canto, Eduardo Laso

World Meteorological Organization (WMO): Rudolf Schroeder

5. *Representatives of the International Atomic Energy Agency:* A. I. Galagan, Mr. Goswani

6. *Representatives of inter-governmental organizations*

Inter-governmental Committee for European Migration: Barthelémy Georges Epinat, E. K. Rahardt, Luigi Guida

Organization of American States (OAS): Cecilio Morales, Elba Gómez del Rey de Kybal, Carlos Arosemena Arias, Armando Araúz

Inter-American Economic and Social Council (IA-ECOSOC): Rafael Glower Valdivieso

European Economic Community (EEC): Guillaume Georges-Picot, Robert H. Faniel

European Coal and Steel Community (ECSC): Christaki de Germain

International Statistical Institute (ISI): Tulo H. Montenegro

General Agreement on Tariffs and Trade (GATT): Jean Royer

7. *Representatives of Non-Governmental Organizations*

Category A

International Confederation of Free Trade Unions (ICFTU): Ary Campista, Arístides Wilson

International Federation of Christian Trade Unions (IFCTU): Emilio Maspero

World Federation of Trade Unions (WFTU): Vicente Lombardo Toledano, Antonio García Moreno Grassi

Category B

Inter-American Council of Commerce and Production: Carlos Ons Cotelo

International Federation of Women Lawyers: Clara González de Behringer

8. *Special observers*

Panamanian Industrialists' Syndicate: Jorge I. Conte, Jorge M. Arias, Edmundo Molino, Vicente Pascual, Manuel Solís P.

Food Wholesalers' Association of Panama: Mariano Arosemena, René Miró

Panamanian Chamber of Commerce, Industries and Agriculture: Pablo Abad, Gustavo Trius, Jorge Velásquez

United States Chamber of Commerce: Forrest D. Murden

American Coffee Growers' Federation (FEDECAME): Manuel Varela Jr.

Federación Iberoamericana del Instituto de Cultura Hispánica: José M. Reverte

Annex II

OPENING ADDRESSES AND STATEMENTS

1

Address delivered by His Excellency Alberto A. Boyd, Minister of Agriculture, Trade and Industry of Panama, on 11 May 1959

It is both a great honour and a source of justifiable satisfaction for me to inaugurate, on behalf of the Government of Panama, as Minister of Agriculture, Trade and Industry, the second session of the Trade Committee of the United Nations Economic Commission for Latin America. It is hardly necessary for me to stress the exceptional importance of the work which is now beginning. The second session of the Trade Committee, which is organically related to the eighth session of the Economic Commission for Latin America, is a milestone on the path towards a continental concept of Latin America's economic development problems which constitutes the basis of a regional policy for their solution.

Indeed we may say, without any risk of exaggeration, that those two sessions represent the culmination of a period of intensive preparatory work prior to the adoption and implementation, in the immediate future and in each of the Latin American countries, of local programmes inter-connected on a regional scale, which will radically transform the living conditions of our peoples.

It is sufficient to consider, in this connexion, the fundamental issues involved in the Latin American common market and intra-regional payments, which are intrinsically two closely related aspects of the primary question of the region's economic development. The work of exploration, research and analysis undertaken by ECLA through its different agencies in this field is indeed remarkable not only because of its significance but also because of the brief space of time in which it has been carried out. This work derived particular impetus from the establishment of the Trade Committee, which was set up at the end of 1955 to study ways and means of expanding inter-Latin American trade and freeing it from all the impediments inherent in the adoption of unilateral practices by each country deriving from the need to protect their economies against certain trends and conditions in external markets.

A review of the work undertaken by the ECLA secretariat and by the Trade Committee shows that the analysis of specific inter-Latin American trade problems has repeatedly brought to light general problems of economic and social development and has produced new ideas which have shaped the preliminary concepts as to how the common market should be formed.

It would be illogical to pretend that we already have in our possession all the means and instruments necessary for establishing this new trade relationship among the Latin American countries. It is enough to remember the difficulties and exploratory steps that have characterized similar efforts made in Europe for over ten years, efforts which have been reflected in no less than half a dozen different plans and organizations and which only in the past year were directed towards the formation of the common market which, it should be stressed, still consists of only six Western European countries. In view of the stage of economic development reached by the majority of our countries, we can only admire what has so far been done in the way of research and the adoption of some general concepts for the co-ordination of our economies with a view to hastening their transformation.

We may rest assured that, in view of the events leading up to this session, its activities will be singularly fruitful and that, as I have said before, it will represent a decisive step towards the attainment of the objective which is dear to all of us, namely, that of ensuring that Latin America's economic and social development advances at a steady and uninterrupted pace such that the aspirations of all our peoples for a better way of life are satisfied within the shortest possible time.

On behalf of the Government and people of Panama, I have the honour to extend to this assembly a most cordial welcome from His Excellency the President of the Republic, Ernesto de la Guardia Jr., to which I should like to add my own sincere wishes for the success of the session.

2

Address delivered by Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs of the United Nations, on 11 May 1959

With the study of the common market the Economic Commission for Latin America has entered upon a new phase. It has gone beyond the formative stage, characterized by the exchange of information and the common study of similar problems, and is now tackling the basic problems of regional co-operation, the problems of systematic and concerted action by neighbouring countries to overcome the obstacles which political frontiers, and all the administrative, customs and monetary machinery, for which they provide a pretext, have over the centuries put in the way of economic development.

I do not, of course, underestimate the scope of the work you have done so far; it represents a very valuable contribution to the elucidation of contemporary problems. It is easy, moreover, to see the underlying principles which have led you through your earlier work to the proposals now before you. But the work you are now undertaking relates to the fundamental purpose which the creators of the system of regional commissions had in mind ten years ago—the formation of a close and permanent association between countries linked by geography and, in the case of Latin America, by history, culture and tradition.

It is now two years since you took up the question of regional integration and in this short time you have already made great strides. It is, of course, necessary always to bear in mind the special characteristics of the situation with which you are concerned and not to confuse what you are doing with experiences elsewhere. But one cannot help noting certain striking points of resemblance between the procedures you have adopted and the course you have followed and what has been done in Europe during these last twelve years. Here, as in Europe, you are seeking both to liberalize trade by reducing tariffs and other obstacles to the flow of goods, and to establish a multilateral payments system by organizing systematic and periodic clearing arrangements for outstanding balances in bilateral transactions. As in Europe, some Governments are more disposed than others to take rapid action without waiting for the general structure to be completed. Regional integration is set in motion by a series of forces which must be allowed to develop and take shape without attempting to make the process conform to an over-simplified pattern in which all the stages have been determined in advance. At the same time, however, you have been careful, as is abundantly clear from the documents before you, to define the broad outline of the over-all scheme from the outset.

This, it seems to me, is a new and original feature of your experiment. The programme before you covers a sufficiently long period and provides for a sufficiently flexible and complex system to discourage no one. That is essential if the effort to achieve integration is to preserve and strengthen the fundamental unity of the continent and not to be directed along lines which might create dissension or division. That danger would be real if the smaller groups to which I have already referred had any tendency to become exclusive or if they lost sight of the over-all plan in which each of the twenty republics should be able to find a place in the course of future years.

The Working Group on the Latin American Regional Market, with its distinguished membership under the energetic chairmanship of Mr. Galo Plaza, is to be congratulated on having been able, in two sessions, to work out a text which meets those conditions and which can be used as a framework for the pursuit of further objectives providing for the progressive reduction of tariffs and other customs barriers within the continent. An arrangement of this kind should give those Governments which are prepared to do so an opportunity to take the necessary steps in the near future to establish a limited free-trade area which other countries will be able to join at a later stage without the delays and complications of further diplomatic negotiation.

Some may perhaps be disturbed by the provisions which allow for differential or preferential systems within the regional system. Such systems are, however, made necessary by the conditions which prevail in Latin America. A regional association can succeed only if it is based on the principle that each of the participants must receive equal advantages. The notion of reciprocity is essential and it does not allow the uniform treatment of situations which are widely different.

Regional economic integration programmes are today a subject of lively and occasionally bitter debate. Their value, and even their legitimacy, are frequently disputed. Such programmes, in their present form, are a recent development and their theoretical foundations are not yet firmly established. Economic theory in general develops only in response to urgent social needs, and then not until some time after three needs have become apparent. One word may cover many things and the objectives sought may be widely different and sometimes not wholly compatible. For some the goal is the rational development of industry; for some, the reorganization of the exchange system and the protectionist apparatus, and for others, the development of markets for raw materials. Even the argument based on the size of the market, which seems to be the strongest basis for your action here, is perhaps not accepted by all. Although it is regarded as decisive by some, its relevance for others will always depend on developments in the world market; it applies essentially to situations marked by a level of development which some countries of Latin America have by no means yet attained. But there is, I think, one idea that is common to all the Governments, the conviction that the efforts to establish a common market, whatever their impact on a particular situation at a given moment in history, can contribute substantially to the consolidation of a stronger association, better able to play its part in dealing with the forces whose inter-relations affect conditions on the world market.

Regional integration is often even more bitterly attacked when it is judged, not in the light of the needs and conditions of the region concerned, but according to the criteria of a world policy, in the light of the efforts made towards the progressive construction of a better integrated international system, or even of the hope of achieving such a system. In this connexion, we have to consider not only an analysis of comparative advantages, but also a whole body of doctrine, at least a series of principles, painstakingly evolved during the post-war period. This is a point which must necessarily receive the attention of this Committee, which forms part of the regional instrument of a world organization. And it cannot be denied that arrangements of the kind envisaged might possibly develop into a new war machine in the service of a protectionist policy, in complete disregard of the requirements of the world economy. It is for this reason particularly gratifying that your Governments should from the outset have decided to ensure and maintain contact with GATT, whose system and principles, however inadequate some may find them, have nevertheless introduced a minimum of rationality in a very substantial area of world trade. There is every reason to believe that it will be possible to deal with the problem of the regional integration of the Latin American countries in accordance with the rules of reason and common sense, avoiding the hazards of excessive dogmatism.

First of all, it should be easy to recognize that, although the development of a common market will entail a certain amount of protectionist machinery, that is due not so much to the regional approach as to the need of the Latin American countries for industrial development. There might be a danger of confusion if new tariffs on imports from the outside world coincide with the first stage of liberalization inside the Latin American area. The alternative here is not less external protection, but the protection of a less rationally organized industrial system.

It would seem also that some of the objections raised in the past with regard to preferential tariff systems have lost some of their relevance. A tendency has gradually emerged to give them at least the benefit of the doubt, to regard them as a useful if not inevitable stage in development towards a more nearly universal system. We cannot in this context forget the experience of Europe and the welcome given a few years ago, in the name of the universalist principle, to the European Payments Union. The benefits of that Union have since become evident. Similarly, the liberalization of trade within OEEC was formerly based on a policy of systematic discrimination with regard to the dollar zone.

It was none the less greeted as a major contribution to the policy of eliminating customs barriers.

There is also an increasing degree of speculation as to whether the world would not be easier to organize economically if the game was played by fewer and less unequal partners. There is some reason to believe, for instance, that negotiations on tariffs would receive fresh impetus if the concerted action of certain groups of Governments reduced the risks now inherent in the most-favoured-nation clause. Thus a new, more discerning and more tolerant dialectic of ends and means is taking shape, and may provide the framework within which the projects you are examining today can find their legitimate place.

I am stressing, perhaps indeed labouring, questions to which you have already doubtless found an answer. But I am forced to do so by my position in the United Nations. An organization like ours, which from the outset has endeavoured to combine the regional approach with the endeavour to achieve a world order, must necessarily be alert to the latent conflicts which may set the one against the other. That is why it is, in my view, so important that regional integration projects should have taken shape within the United Nations, and I should like to express the hope that they may continue to be developed in association with it. That, it seems to me, is a strong safeguard that the interests of the region will be brought into harmony with those of the world as a whole.

There is another reason why the United Nations is continuing to help the American States to establish a regional market. As an institution, the organization has proved itself perfectly adapted to the needs of such an undertaking. It has provided studies and analyses to Governments, in other words, the necessary theoretical basis for action. It has also provided a centre for consultations, thus reproducing on the economic plane a process which has been developed in recent years in the political field. Your Executive Secretary has been able to gather around him both independent experts and persons responsible for government policy. He has been able to bring them together empirically, as need required, so that the various aspects of the problem could be considered successively and separately without losing sight of the needs of the over-all plan. This form of inter-governmental co-operation is in many respects more constructive and fruitful than the routine work of the United Nations often proves to be, based as it is entirely on public debate. It makes for an easier and speedier passage through certain stages, and lays the foundations for a really informed and constructive public debate. Such opportunities have always been provided by the Organization. But they have hitherto been used only sporadically and the experience gathered here may serve as an example to the entire Organization. In any case, it gives us an assurance that the United Nations can continue to render increasingly effective service to Governments in a venture which promises so much.

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Statement made by Mr. Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America, on 11 May 1959

First and foremost, I should like to add my expressions of gratitude to the Government of Panama to those already voiced on behalf of the United Nations by the Under-Secretary for Economic and Social Affairs, Mr. De Seynes; and also wish to thank the Minister of Agriculture, Trade and Industry of Panama very sincerely for his words of encouragement to the ECLA secretariat.

Nor could I fail to take this opportunity of offering my grateful thanks to the Head of the delegation of Argentina for his heartening remarks about our work, and to you, Mr. Chairman, my very great appreciation of all that you have been kind enough to say of ECLA's activities. And, although I may perhaps be slightly exceeding my functions as an official of the secretariat, I should also like to express my deep satisfaction at seeing you take the chair at a session of the Trade Committee which will indubitably be of far-reaching significance for Latin America. The chairmanship of Mr. Garrido Torres might be described as a happy instance of historical continuity. It was he who, in company with other economists, launched, when the right moment came, the idea of the Latin American common market. He, among others, expounded it brilliantly not only in his own country, but in other circles on which the future of the idea would to some extent depend. I am confident that, as on previous occasions, Mr. Garrido Torres will discharge his responsibilities at this session with wisdom agreeably salted with wit.

Since the first session of the Trade Committee, a series of important meetings have been held, the results of which will be considered on the present occasion. The Working Group on the Latin American Regional Market has met twice; the Central Banks Working Group held its second session at Rio de Janeiro to discuss the payments problem; and, under the auspices of ECLA, four series of consultations on trade policy have taken place, two with experts from the southern zone of South America and two with consultants from Colombia, Ecuador and Venezuela. All these meetings served the single purpose of clearing the way for definitive proposals in connexion with a multilateral payments mechanism and with the common market of which such a mechanism is an essential part.

The consultants on trade policy from the southern-zone countries, at their second session, held recently in Santiago, Chile, drew up a draft agreement on a free-trade zone which, in my view, is technically excellent. The Governments concerned will no doubt take the opportunity afforded by the present contact with other Governments members of ECLA to explain the scope of this draft agreement. I only want to mention here one fact to which the secretariat attaches considerable importance in connexion with the work that is being done in this field. The draft agreement was dictated by the pressure of circumstances and the need to prevent trade among the southern-zone countries from being seriously affected by the repercussions of tariff and exchange reforms. Even so, the high technical quality to which I have pleasure in calling attention may perhaps make this instrument the initial step in a much more far-reaching course of action.

In this connexion, the trade policy consultants who studied the draft agreement seem to me to have adopted a very happy decision when they resolved to suggest that their respective Governments should pronounce themselves convinced of the absolute need for this instrument to remain open to other countries which might desire to accede to it. Nor was this all. They also recommended—and this is a supremely important point—that the Governments in question should declare their willingness to renegotiate the instrument, in such a way as to afford ample scope for all the other Latin American countries to participate in this new negotiation, once their Governments had reached agreement on the bases for the common market. And in taking this line, the consultants clearly demonstrated their conviction that such an instrument ought at no time to assume the character of a closed shop.

Similar considerations were put forward a very few days ago at the consultations on trade policy held at Caracas. This series of meetings, like those held by the southern-zone countries, also resulted from the need to devote immediate attention to certain trade problems. The consultants submitted a number of recommendations to their Governments, not only in relation to trade policy, but also with regard to the need for co-ordinating their economic programming efforts, as well as certain activities such as those connected with maritime and air transport. But, again like the southern-zone consultants, they placed on record their opinion that the results of whatever common market agreement might be concerted should be incorporated into any temporary arrangements that circumstances might induce the authorities in their countries to decide upon, and submitted a recommendation to their Governments to that effect.

All this represents a full and satisfactory response to one of the major preoccupations evinced by the Working Group on the Latin American Regional Market, both recently at Mexico and at its first session in Santiago; namely, that the aim should be for the Latin American common market to include the largest possible number of countries within the geographical orbit of Latin America. And I stress this point, because I consider it to be of supreme significance. It is not—happily for Latin America—that I have observed the slightest tendency towards exclusiveness. But what I have noted, on the other hand, is a certain doubt, a persistent doubt in some cases, as to whether the common market could or should be extended to the whole of Latin America. Such misgivings are engendered by a static conception of the common market problem. What is the point, it is often asked, of forming a common market in which the southern-zone countries join with others like Mexico, when there is no trade between them? But the very reason why there is little or no such trade is that in Latin America the outmoded patterns of the nineteenth century still prevail. The creation of a common market at the present stage of energetic industrialization, so necessary to the countries of Latin America, would aim precisely at breaking up those outmoded patterns so that existing intra-regional commerce might be supplemented by trade in industrial products. Consequently, if a dynamic approach is adopted to the common market problem it seems patent that, given the need to accelerate Latin America's industrialization process, all the countries, lage, medium-sized and small, ought to join the market in order to endow it with the breadth, depth and efficacy which it would otherwise lack, if the Latin American countries continued to be grouped in a series of isolated subdivisions.

The second report of the Working Group, drawn up in Mexico, is a sequel to the first, and can only be interpreted in close relation to it, since for obvious reasons it was felt desirable not to revive at the second session topics which had already been dealt with at that held in Santiago. The idea of discussing both documents together therefore seems to me very sound.

I do not regard the proposals made at Mexico as in any way final, and I should like to recall the terms in which the Chairman himself, as a member of the Working Group, stressed at the closing meeting that they represented a step forward, but not yet the decisive step. That would be impossible, in so intricate and complex a field as will be studied at the present session. The greater the knowledge acquired concerning Latin America's real situation, and the more the common market problem is discussed with those qualified to express representative and authoritative opinions, the stronger does the conviction become that ideas which formerly might have seemed very well-grounded may lack foundation, or at least require adaptation to circumstances that at the moment when they were formulated could not be clearly descried. These two reports seem to me to provide sufficient data to afford the Governments assembled here an opportunity for thorough discussion of the problem, so that the secretariat may be given an indication of the lines on which it should proceed with the work. Not only will it be possible to establish guiding principles, but also to decide upon the form to be assumed by the task that lies ahead. Perhaps the Governments represented on this Committee, after the next few days' discussions, will decide to maintain the working groups in which distinguished experts participate in a personal capacity. Or, again, they will perhaps consider that the time has already come to operate at governmental level and to appoint a committee of Government experts, so that the work may be pursued in close contact with the authorities and with the representative economic forces of each of the countries concerned.

The foregoing is a question which I should like to take this opportunity of submitting to the Committee for its consideration. In my opinion the Mexico bases are of considerable merit because of their lucidity and because of their concrete approach to the problem, while at the same time they make no claim to establish solutions too inflexible to be adapted to the unequal stages of economic development reached by the countries of Latin America. The point of departure is a simple and feasible idea. What Latin America needs during the first phase of its common market is a substantial reduction of tariff duties and, within a reasonable time limit, the total abolition of all such restrictions as hamper the flow of trade.

It is therefore recommended that Governments should engage to reduce and abolish restrictions, over a period of ten years, in such a way that the average level of customs duties should not exceed a certain figure in relation to the total value of each country's imports. Thus, the system of averages is the proposed means of determining the commitment to be undertaken by the contracting parties. This is no mere arithmetical device. It is, in my opinion, a happily conceived formula whereby a series of difficulties that were cited as motives of concern at the sessions of the Working Group can be circumvented. The foremost of these is the problem of how to establish specific and clearly defined inter-governmental commitments while at the same time ensuring that, during this formative phase of the common market, the Governments concerned should be allowed all the freedom of movement they required not only to make the requisite adjustments to the changing features of the real situation, but also to safeguard certain industries and activities from the disastrous consequences which sudden competition from imports might otherwise produce. Thus, under the system of average, a Government could abolish or reduce duties on imports of certain goods of which the manufacture is not at present developed or established. This would cover the whole immense range of capital goods, intermediate products, motor vehicles and other items which as yet are not produced or manufacture of which is barely beginning in Latin America. Those are the fields in which the Governments would be able, with great freedom of movement, to adopt extremely progressive decisions, while in respect of other goods, current production of which would be placed in a vulnerable position, the authorities could act with caution, leaving certain duties almost or entirely untouched, so as to prevent the common market from distorting the development of existing activities.

In other words, I believe that with the system of averages a solution has been found for a problem of vital importance —that of resolving upon a specific and clearly-defined commitment which at the same time would impart to government action a great measure of flexibility in the application, through successive negotiations with other Governments, of the reductions which each one might deem it expedient to introduce, always providing that such reductions would ultimately bring duties down to the average agreed upon by the end of the period. A possible subject of discussion would be whether a single duty average in relation to the value of imports should be adopted for all trade items, or whether it would be better to establish three groups of goods, as recommended by the Working Group. I offer this suggestion not in a dogmatic spirit, but simply as a basis for discussion and a means of channelling or organizing it. Other variants might of course be introduced to improve upon or modify the Working Group's proposals, but the fundamental idea of a specific commitment seems to me of decisive importance for the success of the common market, since if such a commitment, however modest, did not exist from the outset, negotiations might be jeopardized, inasmuch as they would be conducted at random, in pursuit of no definite course. The system of averages, on the other hand, would make it possible for such negotiations to follow a clearly marked path, towards a quantitative objective duly defined in the agreement signed by the Governments.

Another of the advantages of the procedure of reduction to an average is that it allows a differentiation to be established between those Latin American countries which are in the initial stage of development and those which have advanced somewhat farther. In this connexion, the meetings of experts at Santiago and Mexico did admirable work, in that they had the resolution and temerity to establish a principle entirely new in Latin America, namely, that equal treatment cannot be accorded where inequalities in trade and industrialization situations exist. Guided by this consideration, the members of the Group are submitting to the Governments a proposal to the effect that the average level of duties which would constitute the target for the first ten years might be higher in countries at the initial stages of industrial development.

The question might be asked, however, whether from the industrial standpoint such a procedure might not encourage the less developed countries to repeat the same mistakes that have been made by the larger countries of Latin America, and attempt to establish all industries in their own territory, regardless of considerations of specialization and economic dimensions. If the smaller countries were accorded a higher level of protection than their bigger neighbours, would they not be led into undesirable industrialization practices ? Would not this encourage them to extend their production plans to all consumer goods and later to the anti-economic manufacture of capital goods ? If the Working Group's recommendation had stopped short here, zeal for the welfare of the less developed countries would unquestionably have precipitated them into forms of economic autarky which are nowadays unacceptable ; but the Group has wisely supplemented its first recommendation with another to which substantive importance must also be attributed. The aim of this second formula is to offer countries at the initial stages of development a further possibility, consisting in the special concessions granted by the larger to the less developed countries to stimulate the latters' industrialization process. As a result, the industrialization effort of a less advanced country, instead of being circumscribed by its own frontiers, would be able to take full advantage of the scope and opportunities offered by the markets of the bigger countries in order to sell such industrial exports as its lines of specialization permitted. In this way, every country in the initial stages of development would be in a position to choose between two alternatives, one bad and the other good. It could either endeavour to establish industries at any cost and in any order ; or it could base its industrialization effort on a broadly selective criterion, so that, instead of attempting to produce all it consumed, it would consume part of other countries' production in exchange for such agricultural and industrial goods as it could send to those at a more advanced stage.

I should like to emphasize the term " agricultural and industrial ". One of the points stressed by all the members of the Working Group has been the concept that the industrialization of the less advanced countries is as important as that of the larger countries, or even more so, at the present stage of economic development, inasmuch as Latin America could not now contemplate a recurrence of the traditional phenomenon of the international division of labour which we were taught in our youth, and which relegated certain countries to the category of primary producers and assigned to others the privileged role of industrial manufacturers.

This arbitrary casting of roles should on no account be repeated in Latin America, and the common market would constitute the only means whereby the less advanced countries could develop their industries along rational lines. Of course, the differential treatments suggested deprive the project of the charm of simplicity ; but, as matters really stand, such simplicity would be purchased at too high a cost. It would imply the reduction to a common denominator of differences which at the present moment cannot be reconciled. Such inter-country distinctions will necessarily have to be drawn in any common market programme if it is to work well in practice once it has become a reality. Nor does this apply only to the countries at the initial stages of development. There are undoubtedly other Latin American countries whose industrial sector is destined to develop vigorously in the course of the next few years ; I have noted in their case, however, the existence of very grave apprehensions lest the common market might frustrate their industrial development plans. In the countries concerned, owing to a particular set of circumstances, the high wage levels registered do not represent a high level of productivity, and, furthermore, are accompanied by a high cost of living. All this is the result of special circumstances. If the countries in question were to join the common market on the same terms as the rest, they would almost certainly be unable to avoid distortion of their industrial development plans or to take due advantage of the opportunity of specialization in industrial exports which the market in question would afford them. Why ? Precisely, because of their heavy costs, deriving from high wages and the high cost of living.

For such countries to be enabled to join the common market, I believe it would also be necessary to devise formulae calculated to permit and encourage their accession. Obviously, the more distinctions are drawn, the more intricate the apparatus will become and the less simple the operation. An effort will have to be made to introduce as few complications as possible, but some are bound to be entailed by the adaptation of the common market project to the widely differing circumstances characterizing the real state of affairs in Latin America. However, there is one overriding principle to which absorption in these partial aspects should never be allowed to blind us. It is a general principle which should pervade every common market programme, and to which Mr. De Seynes referred in his address this morning—the principle of reciprocity. It was given clear expression by the Mexico Working Group in the declaration that no Latin American country ought to be able to derive more advantages from the common market than the rest. And it was reflected in the following specific formula : any country which, by virtue of the common market, and irrespective of situations previously existing, tended to show a persistent excess of exports over imports should adopt additional measures to reduce or abolish duties and restrictions, in order to allow the other Latin American countries a foothold in its own market for their primary or industrial exports.

This is not a principle of equilibrium. Numerous arguments might be adduced to show how absurd it would be to attempt to break down the concept of the international balance of payments into two sub-divisions, i.e., equilibrium among the Latin American countries on the one hand, and between them and the rest of the world on the other. There are elementary reasons for shunning such a procedure. It is not concern for the balance of payments that is implied in allusions to reciprocity, but anxiety to ensure all countries equal and positive opportunities of sharing in the benefits of the common market.

It should not be forgotten that the operation of the common market will be mainly evidenced—especially during its early days—in a transformation of the traditional import substitution policy pursued in Latin America during the last thirty years. The common market will offer any given country a choice between continuing to substitute domestic production for imports within a watertight compartment, or sharing with other countries the task of industrial import substitution. And if this division of an arduous and increasingly difficult labour were not effected on bases of reciprocity, the common market would hamper the growth of those countries which were unable to contribute to its development through their own industrial export trade. If a country failed to find an outlet for its industrial production in the common market, it would be better advised to continue its industrialization process in a watertight compartment than to forgo that essential reciprocity. I therefore hope it will be possible to devise adequate formulae, thanks to which this principle will not be a mere abstract theory, but will be operative in practice, since otherwise the common market could not function satisfactorily.

It is clear from the foregoing that a dividing-line must be drawn between this concern for reciprocity and the motives on account of which a multilateral payments agreement is regarded as an essential part of any common market system in Latin America. In this connexion, too, I believe that positive strides were made at the two sessions of the Central Banks Working Group which, in compliance with the instructions of the Trade Committee, the ECLA secretariat organized at Montevideo and Rio de Janeiro, respectively. At the second of these sessions, mechanisms created at the first were perfected, with the result that a draft protocol was prepared, establishing, for the first time in Latin America, communication among the bilateral accounts of countries in the southern zone, so as to render balances transferable from one such account to another. We are well aware that the arrangement as it stands at present is modest in its scope, but, apart from solving certain problems, it will have considerable merit because of its experimental value. It may, I hope, serve to reveal the possibilities for the gradual loosening-up of the bilateral accounts régime and its ultimate transformation into a multilateral payments system, which will be the more efficient the greater the number of countries included and, therefore, the larger the volume of goods negotiated through such agreements. At the suggestion of the Central Banks Working Group, the secretariat has continued to study the prospects for the gradual evolution of the southern-zone bilateral régime towards a Latin American multilateral payments system in harmony with common market objectives. If the market is to develop smoothly, the elimination of payments difficulties is an essential requisite, and there will be no means of facilitating payments or compensation among the Latin American countries until intra-regional trade is energetically promoted. Herein lie two aspects of one and the same problem.

I have more than once laid stress on the fact that there is no simple solution where the common market is concerned. Unfortunately, we are not confronted with a problem that could be settled once and for all by means of a felicitous formula. It is our conviction that such a formula is beyond our reach ; the utmost we might achieve would be a series of instruments, including one of a preferential nature to be applied in inter-Latin American trade, which would enable the Governments to progress little by little towards the attainment of the basic objective, namely, the common market. The use of such instruments by those not fully convinced of the vital needs of the common market would be foredoomed to failure ; hence their application would have to be subordinated to the implementation of a policy which, it must be confessed from the outset, is extremely difficult to pursue. It will not be easy to bring the common market into operation, nor to establish a multilateral payments system in Latin America, nor to adjust inter-Latin American trade relations to the region's trade relations with the rest of the world. This last is an essential requisite if trade with countries outside the region, far from being adversely affected, is actually to be expanded in consequence of the existence of the Latin American common market.

We are sure that this will be the case, but it would be a mistake to disregard one factor which is of fundamental importance at the present stage of Latin America's economic development, characterized as it is by a weakening of the external forces which formerly stimulated the region's spontaneous growth, so that much of the impetus thus given in the past has now been lost. Latin America will not be able to continue developing spontaneously at the rate called for by the social requirements of economic development, by the need to raise the standard of living of the population as a whole. Consequently, the common market question is part of a serious problem with which the region is faced—that of deliberately and intelligently mustering the vital forces of Latin America, with clearly defined aims and tenacity of purpose, in a co-ordinated endeavour to bring about a state of affairs in which a flourishing economy will generate its own development, a consummation not to be expected within the next few decades.

Annex III

STATEMENTS BY DELEGATIONS IN CONNEXION WITH THE ADOPTION OF THE COMMITTEE'S RESOLUTIONS

When the resolutions of the Committee were adopted at the meeting held on 19 May 1959, some delegations requested the secretariat to ensure that their relevant statements were expressly placed on record in the present report. Accordingly, the declarations made to the secretariat, classified under the resolutions to which they refer, are summarized below.

Resolution 6 (II)

WORK FOR THE ESTABLISHMENT OF THE LATIN AMERICAN COMMON MARKET

1. The delegation of *Bolivia* expressed the view that the wording of paragraph 1 (*d*) of the resolution was too general, and pointed out that the basic requisite for an effective common market was equality among member countries, so that equilibrium among their economies could be created and maintained. Free trade tended to aggravate the disparity between the more and less privileged countries, from the time when the latter found themselves compelled to offer their goods at abnormally low prices. Among the problems that would have to be solved were the following. In the first place, the level of the existing disparities would have to be defined; secondly, the less developed countries would have to be given the requisite financial assistance to enable them to diversify their economies and strengthen their position *vis-à-vis* economic fluctuations; and, thirdly, the raw material situation would have to be improved. Lastly, the principle of exceptions to the progressive reduction of tariff duties and other measures in the case of the less developed countries should be fully recognized. The countries in question would thus be able to join the common market in the knowledge that their interests would be duly safeguarded.

2. In the opinion of the representative of *Brazil*, the constitution of a free-trade zone might be regarded as an interim measure, since the final objective of a common market should be the establishment of a customs union at the earliest possible date. It was very important that certain basic studies should be carried out without delay, and, likewise, that the opinions of Governments should be ascertained in good time. Since Governments might be forced to change their attitude by force of internal circumstances, decisions should be established on the basis of an objective evaluation of each country's economic situation, and all the productive forces ought to be induced to accept the idea of the common market. He therefore advocated caution at the present initial stage, while at the same time stressing the need for progressive continuance of the pertinent studies.

3. The representative of *Colombia* spoke in favour of the resolution, on the grounds that it made allowance for the special circumstances of individual countries and constituted an important advance towards the establishment of the common market.

4. The representative of *Cuba* said that, while supporting the resolution, he would have preferred that, instead of a group of experts such as was specified in paragraph 3 (*a*) of the operative part, a committee of government representatives should be set up. He also noted that the resolution embodied no precise definition of the procedure to be followed once the group of experts had prepared a preliminary draft agreement, although the attainment of that stage did not mean that Governments had to take immediate action. On the contrary, the implications of accession to a common market agreement were so far-reaching that such a step would call for thorough study.

Again, with respect to the establishment of a free-trade area for the four South American countries, the Government of Cuba could not recognize the agreement concluded by the countries concerned, as it had not participated in the relevant discussions. He nevertheless supported the efforts of the Central American States in the direction of economic integration, since they were in a special position and action taken by them could in no way be prejudicial to the common market.

5. The representative of *El Salvador*, speaking on behalf of the Central American countries, said that at their present stage of economic development they would not be able to participate individually in the common market. They were trying to set up a sub-regional market of their own. It was essential that the common market agreement should take that situation into account, so that the pertinent commitments assumed by the countries concerned should not be affected.

6. The representative of *Mexico* declared that although the resolution adopted did not expressly fix the date for the meeting of the group of government experts and for the third session of the Trade Committee, as had been done in the draft which had been presented by his delegation and that of Cuba and which had afterwards been withdrawn, he was nevertheless prepared to give it his support, because, like other delegations, he considered that the secretariat was best qualified to set the dates for the various phases in the preparations for the common market, and because he thought it would be possible for the group of experts referred to in paragraph 3 (*a*) of the resolution to be convened very shortly.

7. The representative of *Panama*, explaining why his delegation was voting in favour of the resolution, stated that in his opinion the only practical step that could be taken for the time being was to prepare the ground for the requisite studies to be carried out, before the common market agreement was more specifically formulated.

8. The representative of *Venezuela* expressed his Government's satisfaction with those parts of the resolution that related to the setting-up of a group of experts, as indicated in paragraph 3 (*a*). He also attached particular importance to the studies recommended to the secretariat in paragraph 3 (*b*), since they would provide a firm foundation for the establishment of a common market adapted to the differences of economic structure, relative production costs and other features characterizing the Latin American countries.

In his opinion, the Mexico report formulated proposals with a view to adjustments of that kind, and the new studies to be made would show that the success of the agreement would depend fundamentally upon a market structure based on flexible principles, which would enable countries at the early or middle stages of development, or with a special composition of production costs, to adapt themselves to the system gradually. He would have liked to see included, in paragraph 1 (*d*) of the resolution, some specific mention of the inequalities deriving from a particular composition of costs produced by structural distortions, as was the case in Venezuela.

In conclusion, he declared that he endorsed the resolution in the form adopted, because it indicated only the general principles of the common market, but that his Government would present Venezuela's points of view in due course, so that special norms might be established for a situation such as that of his country.

Resolution 8 (II)

MULTILATERAL PAYMENTS

The *United Kingdom* representative referred to the statement made by his delegation at the plenary meeting of the Commission on 16 May 1959,[a] to the effect that, in its view, the proposals in the Rio de Janeiro Protocol were unlikely to have the results hoped for. His delegation was therefore unable to associate itself with the expression of approval implicit in resolution 8 (II) of the Trade Committee. If the Protocol were accepted as the basis for a regional payments system, the United Kingdom delegation hoped that a definite term would be set to the operation of the agreement and that provision would be included for the replacement of the agreement by a fully automatic system.

Resolution 9 (II)

STUDY OF THE INTER-LATIN AMERICAN PAYMENTS PROBLEM WITHIN THE COMMON MARKET

1. The representative of the *United States* declared that his acceptance of the resolution should not be interpreted as implying any change in his Government's opinion that a payments union was not necessarily desirable as a complement to the common market agreement.

2. The representative of *Venezuela* informed the Committee of his Government's interest in the report submitted by the Central Banks Working Group (E/CN.12/C.1/10), and said that the working-out of such a system as was therein proposed might be a satisfactory instrument for the common market. However, he pointed out that his country's special position necessitated a more thorough study of the subject.

He likewise added that his Government would continue to co-operate with the Working Group in its effort to devise a satisfactory solution of the payments problem.

On the other hand, he voiced some concern as to the methods of accession to the system that might be appropriate for countries which at present effected their payments in freely convertible currencies and on fully multilateral bases.

3. The representative of the *International Monetary Fund* said that his organization was interested in the resolution adopted, and that he had received express instructions to support it and to offer the Fund's fullest co-operation in efforts to solve so vital a problem.

[a] See document E/CN.12/SR.74 (VIII), p. 6, and Information Document No. 19 of the eighth session of the Commission.

E

THE UNITED NATIONS SECRETARIAT AND THE COMMON MARKET

I

Address delivered by Mr. Dag Hammerskjöld, the Secretary-General of the United Nations, at the opening meeting of the eighth session of the Economic Commission for Latin America, held at Panama City, on 14 May 1959

It is a privilege, which I appreciate highly, to be present at this eighth session of the United Nations Economic Commission for Latin America. Important problems await your decisions and these may well mark a new step in charting the development of your continent. It is quite fitting that you should be gathered in this city whose geographic location symbolizes the concept of communication and exchange between the various parts of the world, indispensable to that better understanding and co-operation which is the very foundation of the United Nations. Meeting today in Panama, one may recall that Simon Bolivar, the great liberator, in an act expressing bold and advanced ideas for his days, convened in this city the first Congress of the Americas and proclaimed that the time had come to place the common interest of the new republics on a safe footing. An extension of this idea is found in the motto that appears on Panama's coat of arms—"*Pro Mundi Beneficio*".

May I express my sincere appreciation to you, Mr. President, to the Government and the people of Panama for their generous invitation and their gracious hospitality.

Since the last time I was with you, at your 1955 session in Bogotá, important events have taken place in some of your countries which have focused the attention of the world on this hemisphere, from its southern tip to the Caribbean. With them has come a renewed dedication to some of the fundamental concepts and ideals inherent in our Charter, and this is bound to be reflected directly in the life and work of our Organization.

I have come to this meeting from Geneva, where the United Nations is acting as host to the Conference of Foreign Ministers. Although Latin America, geographically speaking, stands rather apart from the main areas in which our Organization confronts major political issues, we owe much to the Latin American republics for their constructive interest and participation in efforts constantly made under our Charter for the preservation of peace. It is precisely because your countries appear to be relatively distant from the main storm centres that they should increasingly contribute to the formulation, with the necessary detachment, of solutions based on whatever objective criteria may be available to us.

I mention the diplomatic talks in Geneva, because in this forum devoted to economic development I cannot fail to emphasize how much the progress of the less developed parts of the world is dependent upon the relaxation of tensions and the solution of political problems. In turn, the urge for economic development is emerging as one of the potential unifying factors in the world of today, felt as it is in virtually all countries, independently of political creeds, philosophies and institutional structures. To me, the succession of these two meetings so different in their purpose and character exemplifies the wisdom of the authors of the Charter, when they, for the first time in the history of international organizations, placed political, economic and social objectives on the same footing.

* * *

International co-operation among American States did not begin with the United Nations. It has a long and remarkable history. Over many decades, and sometimes through difficult historical circumstances, it has managed to find a number of very striking expressions, never allowing temporary disputes or conflicts between States completely to obliterate the profound unity of tradition, culture and purpose on which it is based. As it has developed in the system of American States, it has shown its vitality and its adaptability to contemporary circumstances. Proof of this may be found in the recent decision to create a new financial institution designed to serve the interests of this region. The establishment of the Inter-American Bank represents the culmination of some years of negotiations, and we welcome this addition to the sources available for the financing of economic development.

If the United Nations has not been the first in this field, I believe that I am justified in underlining the quite unique and original quality of the contribution which it has made, and is making, through this Commission, to the cause of Latin American co-operation. Perhaps, we can see better the exact nature of this contribution at this session, where bold proposals stand before you, aiming at the establishment of a regional market. For such an idea has not sprung from a sudden and visionary inspiration. Nor does it seem to have been primarily influenced by experiments of a similar nature pursued elsewhere. Rather it derives from a decade of study and reflexion, from the systematic investigation and analysis made in ECLA, with a remarkable continuity of purpose, under the able guidance of Dr. Prebisch, of the conditions under which this continent is developing. It is in the course of analysing the economy of individual countries, of identifying the various factors and the major trends affecting their growth and of attempting to scrutinize their future that the limitations inherent in political fragmentation have shown themselves in such a clear light, and that you have come to feel the need for a new instrument of co-operation. In this process of elucidation, which has led you from country studies to the discussion of the common market, there is an inherent logic and rationality, an intellectual quality, which has its roots in the vitality of the Latin tradition. It is this which today enables Dr. Prebisch to speak with such force of conviction of the need for some institutional arrangement, be it common market, free-trade area, or a looser economic association.

These proposals are stimulating through the continent a new look at the relationship among countries, giving rise to efforts at accelerating the development of mutual beneficial interchange. The value of this approach is already illustrated by the first steps taken toward the programme carried out in Central America, which is the outgrowth of an earlier recognition by the participating Governments that economic progress could be more effectively attained through concerted action rather than in isolated compartments of small individual countries pursuing independent policies. Last year, a milestone in this endeavour was passed when the Multilateral Free-Trade Treaty was adopted by the five Governments. This type of interrelationship among underdeveloped countries is a rather new phenomenon. When this Commission was established in 1948, trade and economic relations between countries of the region were on the whole scanty, in spite of common language and of this tradition of co-operation in many fields to which I have alluded a moment ago.

As you are now embarking on a new phase of this long and difficult journey toward the ambitious goals for which the social scientists use the word "integration", it is my sincere hope that the United Nations, where this idea received its first concrete formulation, will continue to be closely associated with it, whatever may be the form which your action now assumes. The Central American scheme pursued under the aegis of your Commission is an indication of the extent to which our Organization can assist Governments in providing a constructive framework for their co-operation. I am convinced that we can also devise appropriate arrangements for the larger project involving twenty nations.

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These new developments, it seems to me, apart from their inherent merits, are bound to influence the orientation of your work in other sectors, giving them, so to say, an additional dimension. Important as they may be, they should be kept in their true perspective, lest we be tempted to believe that we have found a magic cure for all our ills. The establishment of a system of freer trade in the region will facilitate and enhance the indispensable process of industrialization, opening up new opportunities for productive investments and speeding up the policy of import substitutions. But as we discuss the intricacies of new institutional arrangements, let us not forget that Latin American countries will continue for a long time to depend for their development on the proceeds of their exports of primary commodities. In this respect, we have only to look at the *Economic Survey* which has been placed before you to be reminded once more of the limitations of the regional approach, of the interdependence of the main trading partners, and of the continuing and often acute reactions, in the underdeveloped countries, to significant trends in the industrialized world.

The main concern today is perhaps not so much with the temporary effects of the cyclical movement which has now been identified as the 1958 recession, but rather with the cumulative impact on Latin American foreign trade of the chronic weakness in commodity markets over the last four years. It is true that the decline was particularly felt during 1958 when exports from the region fell by about 700 million dollars, but the trend had started earlier, and is linked with the gradual slowing down of the rate of growth of most industrial countries since 1955. Thus the demand for raw material and foodstuffs has increased only slowly, in many cases more slowly than the capacity for supplying the demand. The real value of foreign exchange receipts has failed to rise fast enough to sustain the rate of economic growth previously achieved in most countries of Latin America. This relative stagnation must of course be viewed against the background of population increases which most of your countries are experiencing these days, and which, in many places, are among the highest in the world.

Fortunately, as a result of previous investments, and more generally of policies initiated during the last decade, internal production of goods is helping to neutralize to a certain extent the reduced availability of imports. The policy of "substitution" which has been so strongly advocated here is beginning to bear its fruits, and countries of the region find themselves less vulnerable to the familiar vicissitudes of demand and prices in the export products.

Also, it seems to me, we can witness a growing recognition of the basic requirements of sound economic development. Many of the illusions which may have existed in the past seem to disappear gradually and there is, at least conceptually, a substantial measure of agreement on the way to handle such problems as inflation, rates of exchange, agricultural policies and price structure. Obviously, many obstacles may defeat the policies designed to achieve the stated objectives but, at least, one can say that problems are no more, as in the past, problems of principles or philosophy, but primarily problems of implementation.

As your countries will resume their course toward rapid economic growth, it is to be expected that some problems may loom larger than before. High rates of growth and the process of industrialization cannot fail to bring to the forefront, as they have done elsewhere, such matters as the distribution of income and, more generally, the social conditions under which development takes place. I mention this factor particularly because your Commission is seized at this session with a proposal to amend its terms of reference in order formally to recognize, in the definition of your mandate, the importance of social factors. It may be for accidental reasons that this question is debated at this juncture, but recent history indicates that such a debate is very timely. Obviously, the question of deciding what balance must be struck between the often conflicting claims of social justice and rapid capital formation is one which each Government must decide for itself. But a lot can be gained by comparative study and the sharing of experience such as your Commission can provide.

Your Commission is an essential instrument of United Nations action in Latin America and it has a natural vocation to be concerned with all the various and interrelated aspects of economic development. It does not, however, exhaust the total contribution of the United Nations in your continent. I may be allowed to refer here to the increasing success of our programme of technical assistance with which you are so familiar. Efforts are constantly being made to improve its performance and I am glad to have with me here today both Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs, and Mr. Roberto Heurtematte, the new Commissioner for Technical Assistance, a distinguished citizen of this country. Their close association in a unified department symbolizes our determination to concentrate more than ever our resources and energies towards the concrete problems directly confronting countries in the process of development.

I also want to mention the new Special Fund, although at this stage it may still appear to you more a promise than a fulfilment, but I can assure you that, under the guidance of Mr. Paul Hoffman, steps are rapidly being taken to ensure that this potentially most useful instrument will make itself felt in the very near future in a number of high priority projects, enlarging and intensifying these spheres of your work which cannot be adequately covered under existing programmes.

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Mr. President, during the last ten years, we have accumulated a body of knowledge and information which had enabled us to diagnose the major ills that beset your countries in the pursuit of their new aspirations. During this very session, we will turn once more our attention toward solving those problems in order to fulfil one of our major responsibilities under the Charter of the United Nations. In this nuclear age, we are very much aware of the consequences of a failure to co-operate; this may serve to stimulate new constructive efforts in all parts of the world. I am convinced that there will be no lack of that constructive and co-operative spirit in your deliberations.

Mr. President, I would like to thank you and the people of Panama once more for their gracious hospitality and to extend to all here present my best wishes for a fruitful session.

II

Statement made by Mr. Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America, at the second session of the Special Committee to study the Formulation of New Measures for Economic Co-operation, of the Organization of American States, Buenos Aires, 28 April 1959

I am attending this conference as the representative of the Secretary-General of the United Nations, and Mr. Mora has also honoured me with an invitation to speak on behalf of the secretariat of the Economic Commission for Latin America, for which I thank him very much. All that I say will spring from my conviction of the profound significance of this session, both for what it will see accomplished and because it bears clear witness to the transformation that has begun to take place in the policy of international economic co-operation. In this process of change a leading role will undoubtedly be incumbent on the Organization of American States, by virtue of all its political potentiality.

Eminent voices have recently proclaimed the need for such a transformation. Latin America has not yet been able to respond fully to the imperative social demand for a more rapid rate of economic development. During the ten years following the war, the notion might have been cherished that the relatively high rate registered in that period would be maintained in the ordinary course of events. Unfortunately, in recent years experience has shown that, in default of an energetic economic development policy, the Latin American countries will be unable to achieve a rate of growth which will allow them little by little to narrow the wide gap between their *per capita* income levels and those recorded in the great industrial centres.

Meanwhile, the lesson of a supremely important experience has been gradually driven home in all spheres of activity with irresistible force. Vast and densely populated regions of the world, where until recently primitive techniques prevailed, are rapidly becoming powerful industrial centres, under the stimulus of their anxiety to raise their unsatisfactory standard of living. Whatever the social cost of this evolution, neither the progress achieved nor the vigorous self-propagating force of the system can be disregarded.

Will Latin America be able to meet the formidable challenge of these events? Will international measures for economic co-operation be carried far enough to imbue national economic development policy with greater strength and purpose? And will this latter in its turn be able to break free of outworn moulds, to overcome objections, misunderstandings and conflicting interests, until the vital energies of all countries are mustered in pursuit of ambitious economic and social objectives?

The answer to such questions, which arise everywhere in Latin America, largely depends upon the constructive effort resulting from meetings such as this. I think that, in general terms, there is a clear awareness of what must be done. Studies and research on the Latin American economy will have to be continued, but a sufficient basis for resolute action already exists, as is evidenced in the main objective of this session. For those of us who have long been convinced of the need to create a Latin American economic development institution, it is heartwarming to see in the present session a final ratification of the proposal. This is a significant point of departure, and there is justification for assuming that, if the new agency is run with financial prudence tempered with imagination, by the very weight of its prestige it will in practice gradually achieve what could not be laid down in writing in its initial bases.

The Bank, in my opinion, will be able to play a very important part in the industrial financing of the common market. The efficient operation of the latter will largely depend upon the financial support given to the reconstruction of existing industries and the establishment of new lines of manufacture, especially in the case of countries that might otherwise be unable to take advantage of all the benefits that the common market could offer them on a level of effective reciprocity.

Dr. Mora suggested to me that I should take this opportunity of speaking on the topic of the common market, and I am very happy to do so, since I am thus afforded an occasion not only to explain to so eminent a gathering what ECLA is doing in this field, but also to express my firm conviction of the need for increasingly close co-operation between the United Nations and the Organization of American States. I have met with the same spirit in Mr. Mora and his immediate collaborators, as likewise in his distinguished predecesor, Mr. Lleras Camargo. And as far as the United Nations is concerned, nothing could be more revealing than Mr. Hammarskjöld's recent speech in Mexico. With reference to the "movement to develop closer economic links" among the Latin American countries which is taking place through ECLA, he mentioned the possibility that "the movement will also be advanced through other international channels". And he added: "The United Nations must be flexible enough to produce and accommodate the necessary pragmatic combinations of regional and global interests."

Apart from other fundamental considerations, the vast scale of the problem in itself calls for such co-operation. And an unflagging endeavour will have to be made to unite forces and not to divide or curtail them. It is essential to avoid undermining the technical effort already organized—in face of great difficulties, needless to say—or damping the zeal of those who are carrying out the common market studies with profound conviction, no matter what the setting in which Governments ultimately decide to conduct the final negotiations and follow up their results.

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For years the idea of a possible common market has been maturing. Finally, in November 1956, the Latin American Governments, through their representatives in the ECLA Trade Committee, requested the ECLA secretariat to set up two groups of experts, one to work on the gradual establishment of a multilateral payments system and the other to define the characteristics of the regional market.

The payments group has already drafted a protocol with a view to the gradual conversion of the bilateral accounts system prevailing in the southern countries of Latin America into a multilateral payments system in which all countries can participate. The regional market group, in turn, at its most recent session in Mexico, prepared very important recommendations on the structure of the common market and the principal bases for its operation. The Governments members of ECLA, at the forthcoming Panama session, will have an opportunity of pronouncing upon these recommendations, which, together with a report by the ECLA secretariat, are at the delegations' disposal.

In face of the problem of development, the common market project cannot be promoted or abandoned at will. We have reached the following fundamental conclusions. During the decade 1945-1955, the average rate of growth of Latin America's *per capita* product was 2.7 per cent; and this rate could not subsequently be maintained because the exceptional factors which had made it possible had ceased to exist. To regain it, as a minimum target, a very intensive effort would have to be made to introduce more advanced agricultural techniques and to push resolutely on with the industrialization process, both in the large and in the medium-sized and small countries. The stock of capital would have to be greatly increased, and the problem of technical training—so widely neglected—would have to be tackled on a colossal scale at every level of productive effort.

Even if all this were efficaciously accomplished, however, we do not believe that in practice the rate of growth of the *per capita* product mentioned above (2.7 per cent) could be reached and maintained, if the industrialization process continued to be carried on within the relatively narrow bounds of each individual country's market, and if every country were to aim at complete self-sufficiency in respect of agricultural commodities, however high the cost for the consumer population.

I do not think that anyone has advocated the inescapable need for industrialization with firmer conviction than the ECLA economists. No one has more steadfastly stressed the need for a systematic import substitution policy, in so far as demand for imported goods tends as a rule to increase much faster than export possibilities. This industrialization policy will have to be pursued in much wider fields and much more energetically than in the past.

Now, however, we equally firmly assert another conviction which has been taking shape since the time of our earlier studies ten years ago. The farther it is desired to carry this policy of substituting domestic for imported manufactures, the greater will be the attendant difficulties, if the process continues to develop within the twenty watertight compartments represented by the individual country markets.

The production of textiles or footwear within such a market is a relatively sound economic proposition. But the same is not true of machinery and equipment, or of motor vehicles, or of the vast range of intermediate goods—among which chemical and petro-chemical products will be outstanding in the future—because of their technical complexity and the incontrovertible need for specialization.

There cannot be the slightest doubt that demand for all these and many other industrial goods will expand enormously in Latin America, and in this respect economic policy must look well ahead. Lack of such foresight would now be unwarrantable in the light of past experience, of the economic maladjustments and disequilibria which have followed one upon another in the Latin American countries.

In Santiago we have just completed a very revealing analysis of the most important requisites that will have to be fulfilled in Latin America if the average *per capita* product is to increase at the aforesaid rate of 2.7 per cent, so that by 1975 it will be 70 per cent higher than it was twenty years before.

To achieve such growth huge quantities of machinery and equipment will be required. Will it be possible to satisfy a large proportion of these requirements, as at present, with imports? Our analyses have convinced us of the contrary. The maximum effort will of course have to be made to develop exports, but even if a relatively optimistic hypothesis, postulating a rate higher than the average for the last ten years, is adopted in this connexion, as well as in respect of current investment, Latin America will have to take vigorous steps to promote the manufacture of machinery and equipment, since neither exports nor foreign capital will suffice to finance all the imports necessary for the accumulation of the vast stock of capital required. At the present time, annual production of such capital goods might be approximately calculated to represent some 240 million dollars. According to our estimates, by 1975 it will probably have expanded to about 6,500 million dollars at 1958 prices. By then, about 60 per cent of Latin America's annual requirements of machinery and equipment will have to be supplied by the region's own industries, as against the current figure of barely 10 per cent.

This implies a categorical conclusion. If Latin America does not systematically organize the production of such capital goods it will not be able to attain a satisfactory rate of economic growth. It would be a dangerous illusion to believe that the problem of capital formation can be solved by an increase in foreign investment alone. Foreign capital and technique can help in the production of the goods concerned, but will in no way free us from the obligation to make a resolute effort in this direction.

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As has been shown, the effort referred to will have to be complex and far-reaching, and it cannot conceivably be carried out effectively within any one country's national frontiers, even in the case of the most highly industrialized Latin American countries.

It seems to me needless to adduce further arguments which would appear to be obvious. Nor is it necessary with respect to the production of motor vehicles. Here too demand would tend to grow intensively, and only a small proportion could be met with imports from the rest of the world. As regards passenger cars alone, current supplies, which fall far short of demand, amount to about 115,000 units. We have estimated that by 1975, on the assumption adopted with respect to the growth of the *per capita* product, demand will approach 1,800,000 units. This shows that production could be organized on rational and economic bases, provided that it were done within the setting of a common market, and that specialization were undertaken by those countries which were in a position to do so.

A long list of examples could be cited to prove that specialization within an extremely broad market will be an essential reprequisite for efficiency and lower costs, as regards both final and intermediate goods. As far as the latter are concerned, suffice it to indicate the possible increase in demand in a few significant cases, as, for instance, for iron and steel (from 6,600,000 tons in 1955 to about 37,000,000 tons in 1975), for copper (from 70,000 tons to about 500,000 tons) and for paper and board (from 440 million dollars to approximately 1,800 million).

The advantages of specialization are also patent with respect to agricultural commodities, although here the problem presents different characteristics. First and foremost, I must make one point quite clear. For reasons set forth in our documents, it would be a very serious mistake if countries which accord protection to certain branches of agriculture left them suddenly exposed to competition from other countries where costs were lower. The future expansion of consumption will call for the co-operation of all concerned, and there would be no sense in undermining now activities that would have to be resumed later. It is improved techniques which will lower costs that are needed, together with measures to ensure the rational use of land for what it can best produce. Nevertheless, within this prudent attitude there is room for two major alternatives. Either the policy of customs protection for agriculture can be carried to an extreme, with a view to the attainment of an onerous degree of self-sufficiency, or an attempt can be made to achieve reasonable production increments and at the same time give other Latin American countries opportunities of satisfying part of the increase in demand. The choice between these two alternatives affects intra-regional trade not only in agricultural commodities but also in industrial goods. If the former were chosen, agricultural imports would be reduced to a minimum, and there would be no chance of developing industrial exports in return for them, as part of industrial trade proper; while in the second case, agricultural imports and industrial exports could gain considerable momentum.

In reality, these two alternatives arise in connexion with the whole of the increment in Latin American production, both agricultural and industrial. By 1975, the population of Latin America will have approached 300 million, as against its present 193 million, and, if the satisfaction of its growing requirements is still attempted within watertight compartments, the high cost of import substitution will largely neutralize the increase in productivity that might be achieved through the accumulation of capital in conjunction with technical training.

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But the problem is not one of productivity alone, intrinsically important though that is. There is another aspect which I should also like to emphasize, namely, the economic vulnerability of the Latin American countries. Far from lessening this, industrialization has brought in its train a vulnerability of a new kind, which is patent in a considerable number of countries. The cause does not lie in industrialization itself, but in the fact that the process has developed in the same out-dated mould in which world trade was originally cast in the nineteenth century, when the exchange of primary commodities for the products of industry began, and in which the whole economy of the Latin American countries was directed towards the great industrial centres, inter-Latin American trade being very slight, and confined to inevitable instances of complementarity. Industrialization has clung to this pattern, with the same tariffs and restrictions *vis-à-vis* the rest of the world as among the Latin American countries.

The consequences of this special situation were not observable in the early days. But now that the first phase of import substitution—that of current consumer goods—has been completed in the countries that have advanced farthest along the road to industrialization, its results are plainly evident, and they will make themselves felt with increasing intensity unless substitution policy undergoes a radical reform, and is no longer implemented in watertight compartments, but in the setting of the common market.

In fact, the steady process of import substitution which has taken place in these more advanced countries has reduced imports to such goods as are essential for the maintenance of economic activities and the level of employment, so that if exports, in one of their characteristic fluctuations, decline, there is danger of a contraction in economic activities and the generation of unemployment. What is more, in some cases the vulnerability in question is so great that recourse to foreign capital becomes unavoidable. It is no longer a matter of turning to foreign investment in order to progress from a moderate to a rapid rate of development, but of having no other alternative than to resort to it. It is true that in some cases this phenomenon of vulnerability has been aggravated by the effects of a mistaken export policy. But this is a question of special circumstances, and even if corrective measure were taken, import substitution within sealed compartments would soon lead to the same extremes of vulnerability.

The only basic solution I can see for this serious problem and for that of the costliness of the substitution process is to break up the out-dated mould referred to by means of the gradual and progressive establishment of the common market and the consequent diversification of imports and exports.

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To consider the problem from another angle, would not this breaking-up of established patterns cause substantial distortions in existing production? I have already made one or two observations in this connexion with respect to agricultural commodities, and I should now like to refer to industry. Everywhere, even among those who are convinced of the advantages of the common market, I have noticed one constant anxiety: what will happen to existing industries? Here too the answer must be categorical. In countries like those of Latin America, where capital investment does not suffice for the productive absorption of all the available manpower, it would simply be anti-economic to cause disemployment of men and machinery. The common market would have to be based primarily on new industries and new machinery which would absorb part of the increment in the active population. These new industries, in conjunction with other dynamic factors, would help to promote the expansion of demand in existing industries. And, in a growing market, the increase in consumption would enable production and imports to expand at one and the same time. The evolution of existing industries in the direction of adaptation to common market conditions must therefore be gradual, allowing sufficient time for specialization in products which will increase their competitive power or their possibilities of ultimate reconstruction.

For all these reasons, the procedure chosen for the progressive establishment of the common market is of great importance. Too abrupt a reduction or abolition of duties might lead to serious complications in some activities. It is in virtue of this consideration that the Working Group recently convened in Mexico to recommend the structure and bases for the common market suggests, in the report sent to Governments a few weeks ago, that the common market should be established in two stages. In the course of the first, which would be of ten years' duration, duties might gradually be abolished on most of the primary commodities which account for practically all existing trade, including mining products and primary commodities that have undergone some degree of processing.

This progressive elimination of duties would permit compliance with the stipulations of the GATT charter for the formation of a free-trade area, i.e., the abolition of all duties and restrictions in respect of a substantial part of trade. This last term has been interpreted to mean at least 80 per cent of the trade in question. But in actual fact this will not be sufficient to give much impetus to intra-regional trade. In addition to the encouragement of existing trade in primary commodities, much greater strides must be taken towards the creation of a new type of reciprocal transactions—trade in industrial products, without which the common market could not become a reality.

With this objective in view, the Working Group recommended a substantial reduction in the average level of duties on such industrial products by the end of the first ten-year phase. The procedure based on average levels would include among its advantages that of giving Governments great freedom of movement, so that they could completely abolish duties on some goods, substantially reduce them for others and reduce them moderately or maintain them in respect of industries whose situation or nature called for this cautious treatment as a means of averting consequences which I have already described. In any event, eliminations or reductions would have to be such that by the end of the decade the average level agreed upon would be reached.

During this first phase, Governments would acquire the experience they needed to enable them to decide what policy should be pursued during the second stage, until the common market had been completely established. I think that in this context too the Working Group had displayed commendable prudence.

As is well known, a free-trade area enables each country to maintain its own tariff *vis-à-vis* the rest of the world. To attempt tariff standardization at an early date would be a task virtually impossible to accomplish. But the Working Group recommends gradual standardization, so that in the second phase a customs union might be established, with a single tariff *vis-à-vis* the rest of the world.

* * *

This same idea of initiating a preferential system with the creation of a free-trade area predominated at the meeting of experts on trade policy held by ECLA at Santiago some days ago. A draft agreement was formulated, and has already been dispatched to all the member Governments. The scope of this draft is limited, as it primarily contemplates the solution of urgent problems affecting the southern countries of Latin America. I regard it as of an interim nature, since it will have to undergo a series of significant changes. The experts in fact proposed that once Governments had agreed upon the structure and bases of the common market, new negotiations should be conducted in which all the Latin American countries would be free to participate, as they likewise could, of course, in the forthcoming negotiations of this first draft agreement prepared in Santiago.

Convinced as we are in the ECLA secretariat of the need to draw in as many of the Latin American countries as possible, we noted with deep satisfaction at the Santiago meetings the insight displayed by the experts present, whose attitude was based on present and future considerations of supreme importance. In this same connexion the Mexico Working Group expressed itself very emphatically. The larger the number of member countries, the greater would be the advantages of the common market, and the more equitable their distribution.

The fact that no trade of any great importance is carried on between Mexico and Colombia, for example, on the one hand, and the southern countries on the other, by no means implies that such trade is in the nature of things impossible. A radical alteration of the existing state of affairs is precisely what the common market would aim at bringing about. Given the reduction or abolition of duties on industrial goods which at present are imported from the rest of the world, and the gradual modification of protection in the case of existing industries, private enterprise, always on the alert for new opportunities, would everywhere develop unsuspected forms of trade which would gradually expand as industry made progress with the wide variety of capital goods, durable consumer goods and intermediate products that it must begin manufacturing in the next few years.

I mentioned that the agreement which the southern countries are endeavouring to concert embodies provision for its own reconstruction. This will afford an opportunity of completing it, once the Governments, as I have already said, adopt a decision as to the recommendations of the Mexico Working Group.

* * *

Among these recommendations I should like to call attention here to three which in my opinion are of decisive importance for the success of the common market. The first relates to the establishment of targets for the reduction of tariff duties on industrial products, on which I have already commented, as well as to the classification of such products in categories; the second to countries in the initial stages of industrial development; and the third, to the responsibility of countries which, by virtue of the common market, might find themselves persistently expanding their exports to a greater extent than their imports.

The experts who met recently in Santiago took up the idea of according differential treatment to countries at the initial stages of industrial development, but deferred defining in what it would consist until the conclusions reached at Mexico had been discussed. At the Mexico session the following two differential measures were recommended: on the one hand, a higher average level of duties than that agreed upon as a target for countries at more advanced stages of industrialization; and, on the other, the special concessions to be granted by these latter in order to throw their markets open to exports of manufactured goods from the less industrialized countries.

This affords striking proof of the spirit which animated the common market experts. It would not do for Latin America to witness a recurrence of the former international division of labour between primary producers and industrial countries. Trade in primary commodities, however much it might increase under the common market system in relation to its present volume, could not constitute a dynamic element powerful enough to accelerate the growth of the small and medium-sized countries. In them too industrialization is an indispensable requisite for economic development, and it can be achieved on economically sound lines only if they have ample possibilities for exporting their industrial products to the more advanced countries in exchange for the latters' exports of manufactured goods. To stimulate such industrial trade, provision was made for special concessions to be granted by the more advanced countries to those at the initial stages of industrial development; and if full advantage is to be taken of these concessions, the less developed countries will be unable to do without technical and financial co-operation. This will be one of the most fruitful fields of action of the financial body which is to be set up.

I stress these explanations, since, while the idea of the common market has made great strides in Latin America, opinion is still far from unanimous as to what it might involve. In our contacts with representative figures we have often come across enthusiastic advocates who were thinking only of their own external sales—whether of primary commodities or of industrial goods—and not of the export trade of others.

This brings us to the third point of which I wish to emphasize the significance, and which concerns all countries. For a series of reasons that are explained in our report on the common market, it would not be desirable that as a result of its operation some countries should persistently increase their exports of goods and services to the common market in excess of their imports from other countries and to the detriment of the industrialization of these latter. In the view of the Working Group, a country in which this took place would have to accelerate the rate of abolition and reduction of its duties and restrictions in order to give greater impetus to imports from other countries.

For my own part, I believe that countries in which the reverse occurs, not for inflationary but for structural reasons, ought to be entitled to slow down the rate of reduction of their duties and restrictions, should the above-mentioned measures fail to produce the results that might be expected. Such treatment would be essential in countries where the level of wages was high, at least during the first phase of the common market, until they were able to specialize, to consolidate their existing industries and to develop new export industries.

These are elementary safeguards. The common market could not be the object of the mere application of a ready-made formula which, once concerted by the Governments, would yield all its beneficial results in the spontaneous course of events. No such simple formula exists. The common market agreement can only establish a suitable framework—that of a preferential system—and provide Governments with the essential instruments for putting into effect a policy aimed at the gradual economic integration of the Latin American countries.

* * *

There is a deep current of feeling in favour of such Latin American integration. But work for the common market might be irremediably frustrated if the countries of the region, carried away by this enthusiasm, neglected to seek to achieve a genuine community of interest, a manifest reciprocity in respect of specific advantages.

Since the dissolution of the bond with Spain that so closely welded these countries together, a century and a half of generous eloquence, of moving declarations of fraternal feeling, has culminated in no other form of economic relationship than that imposed by a certain primary complementarity.

A different path must now be followed. The period during which the growth of these countries was stimulated from without has definitely come to an end. The acceleration of development fundamentally depends upon the Latin American countries' own deliberate efforts, on their firm decision to harness their vital forces in the rational pursuit of a development policy, on their ability to learn from their own experience and to foresee the shape of things to come, and also, to a high degree, on their clear conviction that only by means of their increasingly close integration—in the setting of a common market—will they be able to implement their own individual development programmes.

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[59E2]

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Printed in the Netherlands
16119—November 1959—3,225

Price: \$U.S. 1.25; 9/- stg.; Sw. fr. 5.00
(or equivalent in other currencies)

United Nations publication
Sales No.: 59.II.G.4
E/CN.12/531